

# Audit



# Report

OFFICE OF THE INSPECTOR GENERAL

**FOREIGN MILITARY SALES  
ADMINISTRATIVE SURCHARGE FUND**

Report No. 97-227

September 30, 1997

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**Department of Defense**

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### **Acronyms**

AFSAC	Air Force Security Assistance Center
ATAAPS	Army Time and Attendance Productivity System
DSAA	Defense Security Assistance Agency
FMS	Foreign Military Sales
LSC	Logistics Support Charge
NAVAIR	Naval Air Systems Command
SFFAS	Statement of Federal Financial Accounting Standard
SPO	System Program Office
USASAC	U.S. Army Security Assistance Command



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884**



September 30, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE SECURITY ASSISTANCE  
AGENCY  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Foreign Military Sales Administrative Surcharge Fund  
(Report No. 97-227)

We are providing this report for review and comment. The Navy did not respond to the draft report; however, comments from the Under Secretary of Defense (Comptroller), the Army, the Air Force, and the Defense Security Assistance Agency were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of the consolidation of the U.S. Army Missile Command and the U.S. Army Aviation and Troop Command into the U.S. Army Aviation and Missile Command, we redirected draft Recommendation A.2. and deleted draft Recommendation A.4. The Under Secretary of Defense (Comptroller), Army, Air Force and Defense Security Assistance Agency comments were partially responsive. We request that additional comments on all recommendations be provided by November 28, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Ms. Evelyn R. Klemstine, Audit Program Director, at (703) 604-9172 (DSN 664-9172) or Ms. Catherine M. Schneider, Acting Audit Project Manager, at (703) 604-9609 (DSN 664-9609). See Appendix G for the report distribution. Audit team members are listed inside the back cover.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 97-227

(Project No. 6LG-0071)

September 30, 1997

### Foreign Military Sales Administrative Surcharge Fund

#### Executive Summary

**Introduction.** The Foreign Military Sales (FMS) Program is an element of Security Assistance, a group of programs through which the United States provides Defense articles, services, and military training by cash sale, grant, lease, or loan. FMS includes government-to-government sales of Defense articles or services from DoD inventories or through new procurements under DoD-managed contracts, regardless of the source of funding. The FMS Program within DoD is administered and supervised by the Defense Security Assistance Agency. The Military Departments primarily execute the FMS Program. Public Law 90-629, "The Arms Export Control Act," October 22, 1968, as amended, is the primary law under which the FMS Program is governed. The Arms Export Control Act requires that letters of offer and acceptance for the sale of Defense articles or services shall include a charge for administrative services to recover the full cost of administering sales made under the Act.

**Audit Objectives.** The audit objective was to determine the adequacy of the administrative surcharge rates applied to Defense articles and services procured by FMS customers. Specifically, the audit was to determine whether funds collected from the assessment of the administrative surcharge covered the full cost to DoD of implementing the FMS Program. In addition, the audit reviewed the management control program under which FMS activities were conducted.

**Audit Results.** The Defense Security Assistance Agency and the Military Departments did not have reliable information on either the full cost of the FMS Program or the cost of tasks integral to the FMS Program, such as preparing a letter of offer and acceptance or closing a case. As a result, administrative personnel costs of about \$85.2 million for FY 1995 and \$85.6 million for FY 1996 that the Defense Security Assistance Agency and the Military Departments reported could not be verified. Additionally, the Defense Security Assistance Agency and the Military Departments did not have sufficient information to determine administrative fund budget requirements, to plan for



unexpected requirements, or to evaluate efficiencies and effectiveness of the FMS Program. Also, it could not be determined whether funds collected from the assessment of the 3-percent administrative surcharge and the 3.1-percent logistics support charge were adequate to cover the actual DoD cost of implementing the FMS Program (Finding A).

The Military Departments did not fully comply with the Financial Management Regulation and the Security Assistance Manual requirements by charging routine administrative functions to program management lines. As a result, all routine administrative functions were not charged to the administrative surcharge fund, including \$2.6 million at the F-16 System Program Office in management augmentation fees in FYs 1992 through 1994 (Finding B).

The management control program could be improved because we identified previously unreported material weaknesses.

**Summary of Recommendations.** We recommend that the Director, Defense Security Assistance Agency; the Army; the Navy; and the Air Force use existing systems to identify and track all FMS administrative personnel costs by tasks performed and maintain a database to support requests for reimbursement of administrative funds. We recommend that the Commander, Naval Air Systems Command, reprogram the FMS Timekeeping System to search for missing time sheets for partially dedicated administrative personnel. We recommend that the Under Secretary of Defense (Comptroller) and the Director, Defense Security Assistance Agency, jointly establish a process action team to develop specific criteria for the proper allocation of administrative surcharge funds and program management line funds and adjust the Financial Management Regulation and the Security Assistance Manual to incorporate the criteria developed by the process action team. We recommend that the Commander, F-16 System Program Office, correct the charges to the program management lines for management augmentation fees.

**Management Comments.** The Defense Security Assistance Agency supported the intent of the recommendation to identify and track all FMS administrative personnel costs, stating that it would use workload surveys and begin to develop workload measures and program metrics. The U.S. Army Aviation and Missile Command nonconcurred with the recommendation, stating that systems in place, other than the system recommended for use, would meet the intent of the recommendation. The U.S. Army Security Assistance Command concurred with the recommendation to identify and track all time expended on specific FMS tasks, stating that it will establish codes that will provide the ability to gather and track all employee time associated with FMS tasks. The Air Force nonconcurred with the recommendation to maintain a database of FMS

employees to support requests for reimbursement of administrative funds, stating that a standard system does not exist to track time expended by Air Force FMS employees on specific FMS tasks and that such a system should be incorporated in the development of the Defense Security Assistance Management System. The Under Secretary of Defense (Comptroller) and the Defense Security Assistance Agency nonconcurred with the recommendations to develop a process action team to clarify the Financial Management Regulation and the Security Assistance Manual, stating that those regulations were adequate and no additional guidance was required. The Air Force concurred with exception to correcting the charges to the program management lines for management augmentation fees because the Deputy Under Secretary of the Air Force (International Affairs) had approved the use of management augmentation fees. The Navy did not comment on the draft report. A discussion of management comments is in Part I and the complete text is in Part III.

**Audit Response.** The Defense Security Assistance Agency comments on personnel tracking are generally responsive; however, we are requesting more specific details on the annual survey, the development of workload measures and program metrics, and an implementation date. Comments from the U.S. Army Aviation and Missile Command on using the existing Army Time and Attendance Productivity System to identify and track all FMS administrative personnel costs by tasks performed were nonresponsive and we request that they reconsider their position and provide comments on the final report. We request that the Air Force reconsider its position about the ability of current Air Force systems in place to track time expended on FMS tasks. Comments from the Under Secretary of Defense (Comptroller) and the Defense Security Assistance Agency on developing a process action team to clarify FMS regulations are not fully responsive, because they did not see the need to develop a process action team, stating that the current regulations were adequate. We request that they reconsider their position and provide comments on the final report. The Air Force comments on the use of management augmentation fees are also nonresponsive, because those fees were used to charge routine FMS administrative services directly to FMS cases. We request that the Air Force reconsider its position and provide comments on the final report. We request that the Under Secretary of Defense (Comptroller), Army, Navy, Air Force, and Defense Security Assistance Agency provide comments on the final report by November 28, 1997.

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## **Part I - Audit Results**

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## Audit Background

**Foreign Military Sales Program.** The Foreign Military Sales (FMS) Program, an element of Security Assistance, is a group of programs through which the United States provides Defense articles, services, and military training by cash sale, grant, lease, or loan. FMS includes government-to-government sales of Defense articles or services from DoD inventories or through new procurements under DoD-managed contracts, regardless of the source of funding. The management of the FMS Program within DoD is administered and supervised by the Defense Security Assistance Agency (DSAA). The Military Departments primarily execute the FMS Program.<sup>1</sup>

**Recovery of Full Cost to Administer the FMS Program.** Public Law 90-629, "The Arms Export Control Act," October 22, 1968, as amended, is the primary law under which the FMS Program is governed. The Arms Export Control Act requires that letters of offer and acceptance<sup>2</sup> (cases) for the sale of Defense articles or services shall include a charge for administrative services to recover the full cost of administering sales made under the Act. The Arms Export Control Act states:

(b) Charges for administrative services calculated under . . . this Act shall include recovery of administrative expenses . . . when (1) such functions are primarily for the benefit of any foreign country; (2) such expenses are not directly and fully charged to, and reimbursed from amounts received for, sale of defense services under . . . this Act; and (3) such expenses are neither salaries of the Armed Forces of the United States nor represent unfunded estimated costs of civilian retirement and other benefits.

The DSAA implemented the administrative surcharge referred to in the Arms Export Control Act in January 1970. In April 1987, a logistics support charge (LSC) was implemented to recover the logistics costs incurred in implementing

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<sup>1</sup>For FY 1996, the Military Departments executed about 93 percent of the FMS Program and other DoD Components executed the remaining 7 percent.

<sup>2</sup>A letter of offer and acceptance is a contract between the U.S. Government and a foreign government, in which the foreign government agrees to allow U.S. Government representatives to act on its behalf to procure Defense articles and services. For management and information purposes, the case is divided into separate lines for each category of articles or services to be delivered.

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assessment of the administrative surcharge and the LSC are deposited into the FMS Administrative Cost Clearing account.<sup>3</sup> The Defense Finance and Accounting Service Denver Center maintains that account.

**Administrative Surcharge.** The DoD Financial Management Regulation 7000.14, volume 15, "Financial Management Regulation: Security Assistance Policy and Procedures," March 1993, requires that an administrative surcharge be applied to every line of a case, except program management lines. Program management lines are usually included in letters of offer and acceptance to cover extraordinary case management functions directly related to the item or service being delivered and when it is necessary that DoD undertake some system or program management effort in order to successfully deliver the item that has been ordered by the FMS customer. For each case signed after September 30, 1977, the administrative surcharge was increased from 2 percent to 3 percent.<sup>4</sup> The administrative surcharge can be waived when there is legislative authority; however, the Military Department implementing the case is required to pay the administrative surcharge using its Operations and Maintenance appropriations.

**Revenue Enhancement and Fair Pricing.** The LSC rate of 3.1 percent was created in 1987 as a revenue enhancement device, and fair pricing was incorporated into the Financial Management Regulation in FY 1990 as a cost reduction device. DSAA implemented LSC because it believed that logistics support case lines generated costs that were disproportionately higher than the administrative surcharge revenues provided by those sales. This charge is added to deliveries of spares, modifications to equipment, repair and rehabilitation of equipment, secondary support equipment, and non-working capital fund supplies; however, it is not added to any working capital fund items.<sup>5</sup> According to DSAA officials, the LSC was implemented because FMS moved away from high dollar systems sales to sustainment type support for previous sales. In FY 1990, to reduce costs attributable to the FMS Program, DoD implemented a fair pricing policy. That policy prohibited DSAA and the

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<sup>3</sup> A cost clearing account is an account used when standard rates are employed. The actual expenses are debited to the cost clearing account and the amounts billed to customers are credited to that account.

<sup>4</sup> The administrative surcharge is 5 percent on Cooperative Logistics Supply Support Arrangement cases and orders of nonstandard articles and services unless a contractor is the source of supply for the nonstandard article or service or a program management line is included in the case.

<sup>5</sup> Working capital fund items include supplies, materials, repairables, drawings and technical data, and forgings and castings.

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Military Departments from using FMS administrative funds for military personnel costs and unfunded civilian retirement costs incurred in supporting the FMS Program. With the LSC and the fair pricing policy, the available-to-spend balance in the FMS Administrative Cost Clearing account increased from a negative \$389 million in FY 1988 to a positive \$473 million in FY 1996 (see Appendix D).

**Congressional Ceiling.** Each fiscal year, Congress approves a ceiling (a limit) on the amount of administrative and LSC funds that can be obligated in each fiscal year. Each year since FY 1993, DSAA has included the proposed ceiling on FMS administrative obligations in the Congressional Presentation Document, which summarizes the U.S. foreign operations budget request. Congress approved a ceiling of \$335 million for FY 1995 and subsequently increased the FY 1995 ceiling to \$351 million. Congress approved a ceiling of \$355 million for FY 1996.

## **Audit Objectives**

The audit objective was to determine the adequacy of the administrative surcharge rates applied to Defense articles and services procured by FMS customers. Specifically, the audit was to determine whether funds collected from the assessment of the administrative surcharge covered the full cost to DoD of implementing the FMS Program. In addition, the audit reviewed the management control program under which FMS activities were conducted. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program. See Appendix B for a summary of prior audit coverage related to the audit objectives.



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## **Finding A. FMS Administrative Costs**

The DSAA and the Military Departments did not have reliable information on either the full cost of the FMS Program or the cost of tasks integral to the FMS Program, such as preparing a letter of offer and acceptance or closing a case. Reliable information was not available because DSAA and the Military Departments did not use accounting procedures or cost accounting systems that ensured the inclusion of all costs incurred in support of the FMS Program. As a result, administrative personnel costs of about \$85.2 million for FY 1995 and \$85.6 million for FY 1996 that DSAA and the Military Departments reported could not be verified. Additionally, DSAA and the Military Departments did not have sufficient information to determine administrative fund budget requirements, to plan for unexpected requirements, or to evaluate efficiencies and effectiveness of the FMS Program. Also, it could not be determined whether funds collected from the assessment of the 3-percent administrative surcharge and the 3.1-percent LSC were adequate to cover the actual DoD cost of implementing the FMS Program.

### **Personnel Cost Verification**

**Cost Accounting Procedures and Systems.** Public Law 101-576, "Chief Financial Officers Act of 1990," November 15, 1990, as amended, requires Federal organizations to develop and report cost information and to systematically measure performance. As a result of those requirements, the Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standard No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government (SFFAS No. 4)," July 31, 1995, which contains guidance aimed at providing reliable and timely information on the full cost of Federal programs and their activities and outputs. SFFAS No. 4 recognizes that setting prices is a policy matter, sometimes governed by statutory provisions and regulations and other times governed by managerial or public policies. It requires that cost accounting systems or cost finding techniques, such as observation or statistical sampling, be used to accumulate the full cost of a program. SFFAS No. 4 requires that the managerial accounting standards become effective for fiscal periods beginning after September 30, 1996. SFFAS No. 4 states that managerial cost accounting should be an essential element of proper financial planning, control, and

## **Finding A. FMS Administrative Costs**

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evaluation for any organization that uses resources having monetary value. SFFAS No. 4 also requires the development of performance measures as a means of reporting the efficiency, effectiveness, and results of a program.

**Defense Civilian Payroll System.** DoD Financial Management Regulation 7000.14, volume 8, "Civilian Pay Policy and Procedures," January 1995, requires DoD organizations to use the Defense Civilian Payroll System to pay DoD personnel. The Regulation requires that the Defense Civilian Payroll System be integrated or interfaced with:

- o personnel systems to obtain information on which to process pay;
- o general ledger systems to provide information to prepare various financial statements;
- o cost accounting systems to distribute and charge payroll labor cost data to appropriations, jobs, projects, programs, and departments to help in properly evaluating operations and management and to support budget conception and development; and
- o other financial management systems to meet reporting and management objectives.

Implementation of the Defense Civilian Payroll System began in May 1992 and is scheduled for completion in FY 1998. All organizations visited during the audit had implemented the Defense Civilian Payroll System.

**Partially Dedicated Administrative Work Years.** Personnel working in support of the FMS Program are either fully dedicated or partially dedicated personnel. Fully dedicated personnel are those who are employed at least 90 percent of the time, specifically for purposes of administering the FMS Program. Partially dedicated administrative personnel are those who spend less than 90 percent of their time administering the FMS Program. The Financial Management Regulation states:

The personnel portion of actual administrative expenses shall include a pro rate share of those personnel who spend 10 percent or more of their time performing FMS duties. If an organization's manpower staffing is based upon routinely maintained workload statistics (such as the number of travel orders processed), the FMS administrative personnel expense shall be determined from equivalent FMS workload statistics. In other words, if FMS workload is 25 percent of total workload, then 25 percent of the organization's payroll cost shall be funded through FMS administrative surcharges.

## **Finding A. FMS Administrative Costs**

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Based on that regulation, DSAA and the Military Departments are required to track the actual civilian personnel costs for personnel working at least 10 percent of the time on the FMS Program. Alternatively, the Military Departments and DSAA could use workload statistics to allocate the civilian personnel costs.

**Integral Tasks.** DoD Manual 5105.38, "Security Assistance Management Manual," October 1, 1988, states that the objectives of every case are to provide all articles or services on schedule and within the stated case value and to close the case as planned. To meet those three objectives, DoD must perform certain tasks that are integral to every case. Those tasks include, but are not limited to, preparing the letter of offer and acceptance; preparing amendments and modifications (if needed); procuring the Defense articles being purchased under the case; reviewing and verifying funding against program requirements; recording all financial and logistical transactions; validating that the case has been accurately billed; reconciling case records maintained by the implementing agency with the Defense Finance and Accounting Service records; and closing the case. Those tasks must be performed regardless of the size of the case of the Defense article being purchased.

### **Reliability of Information on the Uses of FMS Administrative Funds**

The DSAA and the Military Departments did not have reliable information on either the full cost of the FMS Program or the cost of tasks integral to the FMS Program. DSAA and the Military Departments did not use accounting procedures or cost accounting systems that ensured the inclusion of all personnel costs in support of the FMS Program. DSAA and the Military Departments used administrative funds to pay for various costs incurred in support of the FMS Program, including, but not limited to, civilian personnel costs, travel, training, and other services. Of the \$351 million administrative budget for FY 1995, DSAA and the Military Departments obligated about \$271.9 million for civilian personnel cost, travel, training, and other services. Of the \$355 million administrative budget for FY 1996, DSAA and the Military Departments obligated about \$286.3 million for civilian personnel cost, travel, training, and other services. We reviewed personnel costs at the organizations listed in Table 1 to determine whether the administrative funding provided to those organizations was sufficient to cover the personnel costs incurred in implementing the FMS Program. We did not review costs for travel, training, or other services because of the extensive audit work required and the limited resources available to perform that audit work.

## Finding A. FMS Administrative Costs

**Table 1. Obligations for Personnel Costs**  
(in millions)

	FY 1995 Obligations			FY 1996 Obligations		
	Personnel	Other	Total	Personnel	Other	Total
DSAA	\$ 7.2	\$ 8.7	\$ 15.9	\$ 7.1	\$28.4	\$35.5 <sup>1</sup>
MICOM <sup>2</sup>	10.2	2.0	12.2	10.5	1.8	12.3
USASAC <sup>3</sup>	24.2	6.7	30.9	23.1	7.5	30.6
ATCOM <sup>4</sup>	5.5	1.4	6.9	5.8	0.7	6.5
Navy IPO <sup>5</sup>	4.4	1.6	6.0	4.5	2.3	6.8
NAVAIR <sup>6</sup>	8.5	5.3	13.8	8.1	6.0	14.1
AFSAC <sup>7</sup>	19.3	5.4	24.7	21.6	2.1	23.7
F-16 SPO <sup>8</sup>	5.9	0.0	5.9	4.9	0.0	4.9
<b>Total</b>	<b>\$85.2</b>	<b>\$31.1</b>	<b>\$116.3</b>	<b>\$85.6</b>	<b>\$48.8</b>	<b>\$134.4</b>

<sup>1</sup>Increase due to the development of the Defense Security Assistance Management System.

<sup>2</sup>U.S. Army Missile Command (currently the U.S. Army Aviation and Missile Command).

<sup>3</sup>U.S. Army Security Assistance Command.

<sup>4</sup>U.S. Army Aviation and Troop Command (currently the U.S. Army Aviation and Missile Command).

<sup>5</sup>International Program Office.

<sup>6</sup>Naval Air Systems Command.

<sup>7</sup>Air Force Security Assistance Center.

<sup>8</sup>System Program Office.

**Reliability of DSAA Personnel Cost Information.** The DSAA did not have reliable information on either the full cost of the FMS Program or the cost of integral tasks. DSAA did not use accounting procedures or cost accounting systems that ensured the inclusion of all personnel costs in support of the FMS Program. Additionally, DSAA did not track the cost to perform tasks integral to the FMS Program. DSAA was a dedicated FMS organization and received only FMS administrative and foreign military financing funds.<sup>6</sup> For each pay period, DSAA entered hourly data directly into the Defense Civilian Payroll System, which paid civilian personnel costs directly from the FMS Administrative Cost Clearing account. The Defense Civilian Payroll System did not maintain a personnel database to track the hours expended on tasks integral to the FMS Program and DSAA did not maintain a separate employee database to accumulate the hours worked on an FMS task. DSAA is the only

<sup>6</sup>Foreign military financing funds are used to cover the cost of administrative activities related to non-FMS security assistance programs implemented by DSAA and the Military Departments, including the Foreign Military Financing Program and the International Military Education and Training Program.

## Finding A. FMS Administrative Costs

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organization within DoD that paid all civilian personnel costs directly from the FMS Administrative Cost Clearing account and reimbursed the account with foreign military financing funds for work performed in support of the foreign military financing program. DSAA determined the amount of foreign military financing funds to be reimbursed to the FMS administrative fund based on each department heads' estimate of the amount of time spent supporting that program. DSAA did not maintain separate supporting time sheets or other documentation showing the actual hours worked in support of the FMS Program versus the actual hours worked in support of the foreign military financing program. DSAA personnel stated that they did not need to use a system to track personnel costs by task because DSAA was essentially a policy organization and its work load remained constant. Without the supporting time sheets or documentation for the amount of time and resources expended supporting the foreign military financing program, we could not verify the validity of the civilian personnel costs of \$7.2 million and \$7.1 million for FYs 1995 and 1996, respectively, attributable to the FMS Program.

**Reliability of Army Personnel Cost Information.** The Army did not have reliable information on either the full cost of the FMS Program or the cost of integral tasks. The Army did not have accounting procedures and cost accounting systems that ensured the inclusion of all personnel costs incurred in support of the FMS Program. Additionally, the Army did not track the cost to perform tasks integral to the FMS Program. The Army paid personnel costs for fully dedicated FMS administrative personnel by direct cite to administrative fund obligation authority<sup>7</sup> within the Program Budget and Accounting System, an Army standard system. The Army paid personnel costs for partially dedicated FMS administrative personnel and partially dedicated program management personnel with Army Operations and Maintenance appropriations and subsequently prepared requests for reimbursement of either administrative or program management line funds. We visited three Army organizations, the U.S. Army Missile Command (Missile Command); the U.S. Security Assistance Command (USASAC); and the U.S. Army Aviation and Troop Command (Aviation and Troop Command). Subsequent to our review, Missile Command and Aviation and Troop Command were consolidated into the U.S. Army Aviation and Missile Command. Each organization used a variety

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<sup>7</sup>Obligation authority is provided by the Defense Finance and Accounting Service Denver Center and allows obligations to be incurred directly against the FMS Trust fund in an amount not to exceed the value specified in the obligation authority. For the FMS Program, obligation authority is provided concurrently with expenditure authority, which allows expenditures against obligations previously recorded.

## **Finding A. FMS Administrative Costs**

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of processes and computer systems to track the use of administrative funds for personnel costs of \$39.9 million for FY 1995 and \$39.4 million for FY 1996.

**Missile Command Procedures.** Accounting procedures at the Missile Command did not ensure the inclusion of all personnel costs incurred. Until July 1996, the Missile Command used its Automated Timecard Entry System, an internal timekeeping system, to accumulate total hours worked. After July 1996, the Missile Command used the Army Time and Attendance Productivity System (ATAAPS), a standard Army Materiel Command system that accumulated total hours worked. The hourly information from ATAAPS was transmitted to the Defense Civilian Payroll System, which paid all Missile Command personnel from either the administrative fund obligation authority in the Program Budget and Accounting System or the Army Operations and Maintenance appropriation. However, the hourly data from the Automated Timecard Entry System and ATAAPS was not used to support use of administrative or program management funds. Additionally, the Missile Command did not have a system, such as the Time and Productivity System used by the Aviation and Troop Command, to create and maintain a personnel labor database for all employees. Instead, at the beginning of each fiscal year, the Missile Command assigned six-digit job order numbers in the Standard Operations and Maintenance Army Research and Development System (Army Accounting System) to each employee designated as fully dedicated to performing FMS Program-related work, whether administrative or program management.

Initially, all FMS Program-related work was either paid from or reimbursed with FMS administrative funds. Managers were then required to complete an electronic exception labor transaction, which enabled their respective timekeepers to manually perform a bill labor transaction. The bill labor transaction reimbursed the FMS administrative funds with program management funds for all activities relating to program management. However, controls were not in place to ensure that exception labor transactions were completed; thus, there was no assurance that administrative funds were reimbursed for program management costs. Although ATAAPS could electronically transfer the labor hours to the Army Accounting System, eliminating the need for the exception labor transactions and the bill labor transaction, the Missile Command did not use that interface capability. The Missile Command instead entered

## Finding A. FMS Administrative Costs

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dummy job order numbers and object class codes<sup>8</sup> into the Army Accounting System, which limited its ability to identify all costs incurred to support the FMS Program.

We were unable to obtain supporting documentation identifying all partially dedicated FMS administrative personnel. Missile Command personnel did not believe that the true FMS administrative cost could be tracked or determined. In FY 1996, the Missile Command was authorized 60 partially dedicated work years. However, the FY 1996 actual obligations did not report any partially dedicated FMS personnel costs. Specifically, the Acquisition Center received 44 spaces for partially dedicated work years funded at about \$2.2 million; the Corporate Information Center received 5 spaces for partially dedicated work years funded at about \$415,000; and the Integrated Material Management Center received 10 spaces for partially dedicated work years funded at about \$380,000. The legal office received 1 work year for one person at about \$89,000. Those organizations did not have a mechanism to support the actual time spent on FMS taskings. Specifically:

- o the Acquisition Center was unable to identify all personnel performing FMS-related duties.

- o the Corporate Information Center identified the personnel costs for nine employees to be reimbursed with FMS administrative funds; however, those employees were not fully dedicated to FMS, but were chosen to represent all partially dedicated work years.

- o the Integrated Material Management Center used a local system, Automated Resource Management Systems, which identified the time spent on FMS administrative duties for their partially dedicated employees. However, the supervisors did not provide supporting documentation for assigning the labor percentage codes for fully and partially dedicated employees.

- o the legal office assigned one partially dedicated person to perform all FMS-related taskings. However, the Missile Command could not verify the time spent on FMS taskings.

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<sup>8</sup>Object class codes identify the type of cost, such as, but not limited to, personnel compensation; personnel benefits; travel and transportation of persons; rent, communications, and utilities; printing and reproduction; consulting and other services; supplies and materials; and equipment.



## **Finding A. FMS Administrative Costs**

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Because of the adjustments made to the Army Accounting System and the difficulty in identifying partially dedicated FMS personnel, we were unable to validate the Missile Command's civilian personnel costs of \$10.2 million for FY 1995 and \$10.5 million for FY 1996.

**USASAC Procedures.** The USASAC did not fully use a cost accounting system or cost finding techniques to accumulate the full costs incurred in support of its FMS Program or to determine the cost of performing tasks integral to the FMS Program. USASAC used the Electronic Timekeeping System, a USASAC internal timekeeping system, to accumulate total hours worked. The Electronic Timekeeping System had the capability to track the number of individual hours to perform specific taskings; however, USASAC did not fully use that capability. For each pay period, personnel performing work related to the FMS Program completed either a manual or an electronic time sheet showing the hours worked on administrative taskings and program management taskings and on non-FMS taskings. A supervisor electronically certified the time sheets; however, certification only entailed ensuring that the total hours for the pay period were correct. The supervisor did not verify the time spent performing specific administrative tasks integral to the FMS Program. The hourly information from the Electronic Timekeeping System was transmitted to the Defense Civilian Payroll System, which paid all USASAC personnel, regardless of whether they were fully or partially dedicated to the FMS Program, from the administrative fund obligation authority in the Program Budget and Accounting System. USASAC did not have a system, such as the Time and Productivity System used by the Aviation and Troop Command, to create and maintain a personnel labor database for all employees. To reimburse the administrative fund obligation authority for non-FMS administrative taskings, USASAC used a labor hours report generated by the Electronic Timekeeping System as support for a Standard Form 1081, "Voucher and Schedule of Withdrawals and Credits." The Standard Form 1081 provided yearend summary totals to the Standard Depot System for reimbursement from Army Operations and Maintenance funds, program management funds, and foreign military financing funds. However, the USASAC individual preparing the Standard Form 1081 made some adjustments without supporting documentation. Because of the volume of payroll data; the lack of supporting documentation for some of the adjustments; and the fact that no logs for adjustments were maintained, we were unable to determine whether the adjustments made were material. We were also unable to validate the full FMS personnel costs that should have been paid from FMS administrative funds.

**Aviation and Troop Command Procedures.** The Aviation and Troop Command accounting procedures did not ensure the inclusion of all personnel costs incurred. The Aviation and Troop Command used ATAAPS along with the Time and Productivity System to track personnel costs and to provide total

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hours worked. The Time and Productivity System created a personnel labor database to ensure that all labor hours recorded in ATAAPS were identified to an employee. For each employee, the Time and Productivity System database identified organization, job order numbers, and social security number. The Time and Productivity System also had the capability to identify labor hour types;<sup>9</sup> however, the Aviation and Troop Command used it only to identify total hours worked on FMS and non-FMS taskings and hours associated with leave and holidays. The Aviation and Troop Command, unlike the Missile Command, used the interface between ATAAPS and the Army Accounting System for the reimbursement of the Operations and Maintenance appropriation with administrative funds for partially dedicated personnel. Additionally, the Aviation and Troop Command used the interface between ATAAPS and the Army Accounting System for the reimbursement of administrative funds with program management funds. However, when the Aviation and Troop Command personnel made adjustments (referred to as cost transfers) to the Army Accounting System, they did not ensure that the same adjustment was made to the Time and Productivity System. Finally, it could not be determined whether civilian benefits, such as leave (annual, sick, and administrative); holiday; and training, were reimbursed with FMS administrative funds.

We were unable to validate all the Aviation and Troop Command fully and partially dedicated FMS administrative personnel costs. In FY 1996, about \$2 million of the \$5.8 million administrative personnel costs for the Aviation and Troop Command were allocated to partially dedicated personnel. However, the FY 1996 actual obligations did not report any partially dedicated FMS personnel costs. We were unable to verify the percentage of work partially dedicated personnel performed on FMS administrative taskings. For example, Aviation and Troop Command FMS personnel agreed that all FMS taskings performed outside of the Security Assistance Management Directorate were for partially dedicated personnel. Aviation and Troop Command personnel based partially dedicated work years primarily on historical allocations. Organizations providing partially dedicated FMS work years agreed that their personnel expended more than 10 percent of their time on FMS administrative duties; however, they did not always track the hours expended. Additionally, the Aviation and Troop Command personnel did not ensure that FMS job order numbers were assigned to FMS fully and partially dedicated employees. Thus, we could not determine whether the Aviation and Troop Command identified

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<sup>9</sup>Labor hour types include FMS administrative taskings as well as leave (annual, sick, and administrative) and holidays.

## **Finding A. FMS Administrative Costs**

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the full cost incurred in support of the FMS Program or whether the \$5.5 million reimbursed in FY 1995 and the \$5.8 million reimbursed in FY 1996 covered all the personnel costs incurred by the Aviation and Troop Command in support of the FMS Program.

**Reliability of Navy Personnel Cost Information.** The Navy did not have reliable information on either the full cost of the FMS Program or the cost of integral tasks. The Navy did not use accounting procedures and cost accounting systems that ensured the inclusion of all personnel costs incurred in support of the FMS Program. Additionally, the Navy did not track the cost to perform tasks integral to the FMS Program. We visited two Navy organizations, the Navy International Program Office and the Naval Air Systems Command (NAVAIR). Each organization used a variety of processes and computer systems to prepare requests for reimbursement of administrative funds for personnel costs of \$12.9 million for FY 1995 and \$12.6 million for FY 1996.

**Navy International Program Office Procedures.** The Navy International Program Office did not use a cost accounting system or any other system to track the hours worked performing specific tasks in support of the FMS Program. Navy International Program Office personnel stated that they did not see a need for a cost accounting system to track the hours worked performing specific tasks because they did not see any benefit in tracking specific tasks. For each pay period, the Navy International Program Office entered hourly data directly into the Defense Civilian Payroll System, which paid civilian personnel costs from the Navy Operations and Maintenance appropriation. The Defense Civilian Payroll System did not maintain a separate personnel database to track the hours expended on tasks integral to the FMS Program, and the Navy International Program Office did not maintain a separate employee database to accumulate the hours worked by labor hour type. The Navy International Program Office did reimburse its Operation and Maintenance appropriation with FMS administrative funds, foreign military financing funds, program management funds, and foreign comparative testing funds.<sup>10</sup> To obtain support for the reimbursement request, the Navy International Program Office designated 69 of its 144 civilian personnel as fully dedicated to the FMS Program and manually summarized their payroll data from the Defense Civilian Payroll System. The Navy International Program Office did not require its personnel to track the actual time expended performing specific tasks in support of the FMS Program or any other program for which it received funding.

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<sup>10</sup>Foreign comparative testing funds are used to evaluate items from foreign manufacturers against DoD requirements.

## Finding A. FMS Administrative Costs

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While we were able to validate expenditures of \$4.4 million in FY 1995 and \$4.5 million in FY 1996 attributed to supporting the FMS Program, we were unable to validate whether those personnel designated as FMS dedicated worked solely in support of the FMS Program.

**NAVAIR Procedures.** The NAVAIR did not retain accounting records supporting FY 1995 requests for reimbursement of administrative funds for personnel costs incurred. Additionally, NAVAIR could not readily provide the information needed to track data from accounting records supporting FY 1996 requests for reimbursement to time sheets or other supporting documentation for each employee performing administrative tasks in support of the FMS Program. NAVAIR personnel stated that personnel turnovers and moves resulting from reorganizations, normal attrition, and the scheduled relocation to Patuxent River, Maryland, resulted in some accounting records being mistakenly discarded. NAVAIR personnel explained that they could not readily provide supporting documentation needed to track data from accounting records to source time sheets or other documents for FY 1996 because the information was electronically archived on computer tape and personnel who were needed to readily extract the information were no longer available. As of April 30, 1997, NAVAIR had not provided supporting documentation for the FY 1996 requests for reimbursement. Because we could not track data from accounting records supporting requests for reimbursement to supporting time sheets and other documents, we could not verify the validity of the civilian personnel costs of \$8.5 million in FY 1995 and \$8.1 million in FY 1996 charged to FMS administrative funds.

Although support for FY 1995 and FY 1996 requests for reimbursement was not readily available, NAVAIR implemented new accounting procedures in FY 1997 to ensure that support for requests for reimbursement would be readily available. NAVAIR implemented a new FMS Timekeeping System at the beginning of FY 1997; however, that system did not contain controls to ensure that costs for personnel partially dedicated to the FMS Program were included in requests for reimbursement of administrative funds. For each pay period, NAVAIR required all personnel performing FMS administrative tasks to record on time sheets the hours worked performing those tasks, program tasks, and non-FMS tasks. The time sheets were certified by their supervisors and entered into the FMS Timekeeping System. The FMS Timekeeping System electronically matched authorized fully dedicated FMS personnel with the time sheet data for fully dedicated FMS personnel, biweekly, and generated an exception report showing missing time sheets. The NAVAIR data input clerk used that report to contact personnel with missing time sheets. The FMS Timekeeping System did not perform the same match for partially dedicated FMS personnel. Unless controls are in place to ensure that time sheet data for partially dedicated FMS personnel are entered into the FMS Timekeeping

## **Finding A. FMS Administrative Costs**

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System, there is no assurance that all personnel costs incurred in support of the FMS program will be reimbursed with administrative funds. Because the new FMS Timekeeping System was under revision during the audit, NAVAIR agreed to consider implementing controls to detect missing time sheets for partially dedicated FMS administrative personnel.

**Reliability of Air Force Personnel Cost Information.** The Air Force did not have reliable information on either the full cost of the FMS Program or the cost of integral tasks. The Air Force did not use accounting procedures and cost accounting systems that ensured the inclusion of all personnel costs incurred in support of the FMS Program. Additionally, the Air Force did not track the cost to perform tasks integral to the FMS Program. We visited two Air Force organizations, the Air Force Security Assistance Center (AFSAC) and the Aeronautical Systems Center/F-16 System Program Office (SPO). Each organization used a variety of processes and computer systems to prepare requests for reimbursement of administrative funds for personnel costs of \$25.2 million for FY 1995 and \$26.5 million for FY 1996.

**AFSAC Procedures.** The AFSAC did not use a cost accounting system to accumulate the full cost incurred in support of the FMS Program. AFSAC did not see the need for a cost accounting system because it was a dedicated security assistance organization. For each pay period, AFSAC entered hourly data directly into the Defense Civilian Payroll System, which paid civilian personnel costs from the Air Force Operations and Maintenance appropriation. The Defense Civilian Payroll System did not maintain a personnel database to track the hours expended on tasks integral to the FMS Program and AFSAC did not maintain a separate employee database to accumulate the hours worked by labor hour type. To obtain support for the reimbursement request, AFSAC obtained payroll data from the Defense Civilian Payroll System that identified administrative and program management personnel by using a program element code. Personnel at AFSAC assumed that if the program element code designated an individual as FMS administrative, then 100 percent of that individual's time was spent performing administrative tasks. Personnel at AFSAC also assumed that if the program element code designated an individual as program management, then 100 percent of that individual's time was spent performing program management tasks. However, AFSAC did not have a mechanism to verify whether an individual was performing administrative or program management tasks because AFSAC did not require its personnel to track time spent performing administrative tasks and time spent performing program management tasks. Without documentation supporting the actual hours worked on administrative and program management tasks, we could not validate the AFSAC civilian personnel costs of \$19.3 million for FY 1995 and \$21.6 million for FY 1996.

**Aeronautical Systems Center/F-16 SPO Procedures.** The Aeronautical Systems Center prepared the F-16 SPO reimbursement requests for FMS administrative funds and program management funds; however, it did not use a cost accounting system to generate the data to support the reimbursement requests. The F-16 SPO entered hourly data directly into the Defense Civilian Payroll System, which paid civilian personnel costs from the Air Force Operations and Maintenance appropriation. The Defense Civilian Payroll System did not maintain a personnel database to track the hours expended on tasks integral to the FMS Program, and the F-16 SPO did not maintain a separate employee database to accumulate the hours worked by labor hour type. To obtain support for the reimbursement request, the Aeronautical System Center obtained payroll data from the Defense Civilian Payroll System and combined that data with manual spreadsheets that identified administrative and program management personnel by using a program element code. Personnel at the Aeronautical Systems Center assumed that if the program element code designated an individual as FMS administrative, then 100 percent of that individual's time was spent performing administrative tasks unless the Aeronautical Systems Center knew otherwise.<sup>11</sup> Personnel at the Aeronautical Systems Center also assumed that if the program element code designated an individual as program management, then 100 percent of that individual's time was spent performing program management tasks. The Aeronautical System Center did not require F-16 SPO personnel to prepare time sheets documenting actual hours worked on Air Force, FMS administrative, and program management taskings; therefore, the Aeronautical Systems Center had no mechanism for verifying the percentage of time that an individual spent performing administrative or program management taskings. Without preparing time sheets documenting the actual hours worked on FMS administrative taskings, we could not verify the civilian personnel costs of \$5.9 million for FY 1995 and \$4.9 million for FY 1996.

The F-16 SPO implemented the SPO Tools System in June 1996 as an internal work-hour tracking system. The SPO Tools System had the capability to track the number of hours each individual worked to perform specific tasks integral to the FMS Program. However, the F-16 SPO used the SPO Tools System only as an internal management tool to track the total hours worked in support of the

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<sup>11</sup>For example, one individual at the F-16 SPO spent 100 percent of the time working on technology transfer issues. Even though that person was assigned an administrative program element code, the personnel costs were not reimbursed with administrative funds because technology transfer issues are required to be funded with Operations and Maintenance appropriations.



## **Finding A. FMS Administrative Costs**

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U.S. Air Force and each FMS customer. The SPO Tools System did not contain payroll or cost information and was not used as support for the reimbursement of administrative or program management line funds.

### **Determining the Administrative Fund Budget Requirements**

The DSAA and the Military Departments did not have sufficient information to determine administrative fund budget requirements, to plan for unexpected requirements, or to evaluate efficiencies and effectiveness of the FMS Program. Additionally, we were unable to determine whether funds collected from the assessment of the 3-percent administrative surcharge and the 3.1-percent LSC were adequate to cover the actual DoD cost of implementing the FMS Program.

**Administrative Fund Budget Requirements.** The Military Departments received an imposed administrative fund budget rather than a budget based on requirements, because DSAA did not obtain adequate cost information to determine the full cost for each Military Department to execute the FMS Program. DSAA did not require the Military Departments to prepare budgets by task for those tasks integral to the FMS Program. In a March 10, 1995, memorandum, DSAA imposed administrative fund budget caps for FY 1996 through FY 2002, based on an anticipated decline in future revenue and the approved FY 1995 budget execution plans, adjusted for changes in the FMS Program (see Appendix E). DSAA estimated that annual sales for FY 1996 through FY 2000 would be about \$9 billion and would result in reduced FMS work load. Thus, the administrative fund budget caps represented all the funds expected to be available to administer the FMS Program. Table 2 shows the budget caps per fiscal year for DSAA and each Military Department.



**Table 2. Administrative Fund Budget Caps  
for FY 1996 Through FY 2000**  
(in millions)

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>DSAA</u> <sup>1</sup>
1996	\$91.7	\$60.9 <sup>2</sup>	\$98.3	\$25.1 <sup>3</sup>
1997	85.7	58.0	94.3	36.7
1998	80.7	54.0	88.3	39.1
1999	77.0	51.3	82.3	38.2
2000	75.0	49.0	76.3	34.5

<sup>1</sup>Includes funding for development of the Defense Security Assistance Management System.

<sup>2</sup>Increased to \$61.2 million in the fourth quarter of FY 1996.

<sup>3</sup>Increased to \$35.8 million in the fourth quarter of FY 1996.

As Table 2 shows, DSAA reduced the Army funding by about 18.2 percent, the Navy funding by about 19.6 percent, and the Air Force funding by about 22.4 percent over the 5 fiscal years. DSAA provided revised administrative fund budget caps to the Military Departments in a December 9, 1996, memorandum (see Table 3).

**Table 3. Revised Administrative Fund Budget Caps**  
(in millions)

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>
1998	\$83.4	\$55	\$89.3
1999	80.3	53	84.3
2000	77.9	51	78.3
2001	76.4	50	77.3
2002	75.0	49	76.3

As Table 3 shows, DSAA allowed the Military Departments 2 additional years to accommodate the budget reductions required in the DSAA memorandum of March 10, 1995. However, because DSAA did not have sufficient information regarding the actual cost of the FMS Program, DSAA did not have a sound basis for projecting the Military Departments' administrative budget fund requirements for future years.

## **Finding A. FMS Administrative Costs**

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**Plan for Unexpected Requirements.** Without having adequate cost data on performing tasks integral to the FMS Program, DSAA and the Military Departments could not effectively plan and provide resources for unexpected requirements, such as Presidential initiatives. For example, in July 1996, the Air Force signed two F-16 aircraft leases and a letter of offer and acceptance with Jordan. The first lease provided 13 aircraft and associated equipment, valued at about \$46.6 million, to Jordan at no cost. The second lease, for three aircraft valued at about \$17.5 million, required rental payments of \$4.6 million. The letter of offer and acceptance, valued at about \$209.2 million, provided materiel and services to update and support the aircraft. The leases and letter of offer and acceptance were signed after DSAA had established the Air Force FY 1996 and FY 1997 administrative fund budgets and DSAA did not provide the Air Force with additional funding resources to support the new requirement. DSAA stated that the Military Departments were required to execute the FMS Program within their budgets and to effectively use the available resources.

**Evaluate Efficiencies and Effectiveness of the FMS Program.** The FMS Program should be run efficiently and effectively and the full cost of the program should be accumulated and reported. The SFFAS No. 4 requires the development of performance measures as a means for reporting the efficiency and effectiveness of a program. DSAA established performance measures for the FMS Program (see Appendix F). Those performance measures summarized the number of tasks completed (for example, the number and value of new cases accepted; the value of Defense articles and services delivered; and the number and value of cases closed). The performance measures did not show the cost to perform the various tasks. DSAA provided performance measures that showed that DoD closed 2,581 cases, valued at \$9.2 billion, in FY 1996. However, neither DSAA nor the Military Departments provided a performance measure showing how much of the FY 1996 administrative budget was expended on case closure tasks. Without determining the actual cost of performing various tasks integral to the FMS Program, DSAA could not fully evaluate efficiencies and effectiveness of the FMS Program.

Information on the costs of FMS tasks can be used as a basis to estimate future costs in preparing and reviewing budgets. After budgets are approved and executed, cost information serves as a feedback to budgets to show how well an organization is meeting its goals and where potential cost reductions could be achieved. Using cost information, Federal managers can control and reduce costs and find and avoid wastes. DoD managers need to know the costs of tasks performed in support of the FMS program to evaluate the efficiencies and effectiveness of current versus proposed actions. For example, the Navy is in the process of streamlining the letter of offer and acceptance preparation process. The Navy determined that it took about 73 days to process a letter of offer and acceptance; however, the Navy could not calculate the dollar value of

## Finding A. FMS Administrative Costs

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the resources (personnel costs) used in the letter of offer and acceptance preparation process. The Navy expected that reducing the overall processing time would reduce the overall resources used in the process. However, it was unable to determine whether reducing the letter of offer and acceptance processing time reduced personnel costs incurred because the Navy did not track personnel costs by the type of functions being performed.

**DSAA Administrative Surcharge Review.** Funds generated from the assessment of the administrative surcharge and the LSC are expected to cover the full cost of implementing the FMS Program. The Security Assistance Manual requires DoD to review the administrative surcharge at least every 2 years to ensure that DoD is recovering the full cost of implementing the FMS Program. However, SFFAS No. 4 recognizes that setting prices is a policy matter, sometimes governed by statutory provisions and regulations and other times governed by managerial or public policies. If fees or reimbursements either exceed or do not recover the full costs due to policy or economic constraints, management needs to be aware of the difference between cost and price. The administrative surcharge had not been adjusted since FY 1977 and the LSC had not been adjusted since its implementation in FY 1987, although significant changes in the balance of the FMS Administrative Cost Clearing account occurred. The FMS Administrative Cost Clearing account balance increased from a negative \$389 million to a positive \$473 million, a net change of \$862 million.

The DSAA was required to review the administrative surcharge to ensure recovery of the full cost of the program. However, when asked how the administrative surcharge was reviewed, DSAA responded in an October 18, 1996, memorandum:

DSAA Budget Division monitors the status of revenues and collections in the FMS administrative arena on a monthly and annual basis, producing a monthly report to DSAA Comptroller. Since FY 1989, the financial records of the administrative and LSC cost clearing accounts of the FMS Trust Fund (maintained by DFAS-DE [Defense Finance and Accounting Service Denver Center]) show that revenues have exceeded costs in all but one year. "Revenues are covering costs."

The DSAA review appeared to be merely a review of the Military Departments actual obligations and disbursements. Those obligations and disbursements were limited by the imposed administrative fund budgets that DSAA established.

## **Summary**

The FMS Program should operate like a business in which the revenue generated from the assessment of various fees is used to recover the full cost to execute the program. DoD did not use the cost accounting systems necessary to determine whether the funds generated from the assessment of the administrative surcharge and LSC were adequate to recover the full cost incurred to implement the FMS Program. Additionally, DoD did not know whether the resources committed to the FMS Program were adequate to perform all required tasks. Without determining the cost of the program and the cost of performing tasks and without developing performance measures that show the cost to perform various tasks integral to the FMS Program, DoD could not adequately evaluate the FMS Program or make informed management decisions related to controlling program costs and streamlining processes.

## **Management Comments on the Finding and Audit Response**

### **The Office of the Under Secretary of Defense (Comptroller) Comments.**

The Office of the Under Secretary was not required to comment on Finding A but chose to do so. The Office of the Under Secretary disagreed with the finding because section 21 of the Arms Export Control Act requires DoD to recover administrative costs by charging an average percentage. By statute, DoD must recover administrative costs through the use of a percentage and must operate the FMS Program within the constraints of the administrative charges collected and authorized to be spent by Congress. The budget process administered by DSAA for the administrative support fund is intended to ensure that DoD Components operate within the FMS Program's anticipated administrative surcharge collections and the ceiling authorized by Congress. The DSAA budget process provides an opportunity to evaluate the adequacy of the administrative surcharge percentage and the requirements of the DoD Components, including opportunities for efficiencies and effectiveness. The Office of the Under Secretary further stated that through the DSAA administrative support budget process, allocation of administrative budget authority, and monitoring of the FMS Program, DSAA is cognizant of the Military Departments' requirements and the adequacy of the percentages. In the future, if sales drop considerably and the collection of the administrative surcharge is inadequate to maintain the current level of FMS case support infrastructure, the percentage may need to be increased or the infrastructure

## Finding A. FMS Administrative Costs

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decreased accordingly. However, at the present time, the Office of the Under Secretary believes that the percentages are adequate to recover the costs of DoD with an acceptable level of support infrastructure.

**Audit Response.** We reviewed accounting procedures and cost accounting systems used to accumulate and report costs associated with the FMS Program. Our work encompassed about 24 percent of the total administrative surcharge funds provided in FYs 1995 and 1996. DSAA and the Military Departments did not have accounting procedures or cost accounting systems that ensured the inclusion of only the costs incurred in support of the FMS Program. Overcharging and undercharging of the administrative fund may be occurring. Because of this, DSAA could not be assured that the cost to DoD to execute the program was being recovered as required by the Arms Export Control Act. In addition, DSAA could not determine whether the assessment of the administrative surcharge and the LSC were generating sufficient funding to meet FMS Program requirements or were generating excess funds above FMS Program requirements. Through the assessment of the administrative surcharge and the LSC, DSAA has accumulated \$683.6 million in the FMS Administrative Cost Clearing account as of the end of FY 1996 (see Appendix D).

The DSAA budget process does not provide sufficient information to evaluate the efficiencies and effectiveness of the FMS Program because cost information on specific tasks integral to the FMS Program is not accumulated. SFFAS No. 4 requires the development of performance measures as a means for reporting the efficiency and effectiveness of a program. We maintain that DoD cannot fully evaluate the efficiency of the FMS Program until DoD can determine the cost to perform various tasks required by regulation to identify the efficiencies and inefficiencies within the program. Additionally, Public Law 103-62, "Government Performance and Results Act of 1993," August 3, 1993, requires that each organization prepare an annual performance plan covering each program activity in the organization's budget, starting in FY 1999. The performance plan is to include performance goals to define the level of performance to be achieved by a program activity expressed in objective, quantifiable, and measurable form. The performance plan is required to include a description of the operational processes, skills, and technology, and the human, capital, information, or other resources required to meet the performance goals. Also, the performance plan is required to establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity; provide a basis for comparing actual program results with the established performance goals; and describe the means to be used to verify and validate measured values. The current budget process does not provide DSAA or the Military Departments with sufficient information to determine whether they improve the efficiency

## **Finding A. FMS Administrative Costs**

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and effectiveness of the FMS Program. Without adequate accounting procedures or cost accounting systems, the Military Departments will not be able to comply with the Government Performance and Results Act.

We agree that DoD is required to recover administrative costs through the application of a percentage to FMS cases; however, to evaluate whether the application of the percentage is generating sufficient funds to cover the DoD costs to run the FMS Program requires that DoD know the program costs. We maintain, based on the audit work performed, that DoD does not have sufficient information to evaluate the adequacy of the administrative surcharge and the LSC. We also maintain that the DSAA review of the administrative surcharge does not address the adequacy of the surcharge because of the inadequacy of the cost accounting systems. Because the Military Departments are limited by the budget authority provided by DSAA, we could not determine whether the obligations reported by the Military Departments reflected only the costs incurred in support of the FMS Program; whether FMS Program costs above the budgeted amounts were shifted to other funding sources (see Finding B); or whether costs for other programs were shifted to the FMS Program.

## **Recommendations, Management Comments, and Audit Response**

**Deleted, Redirected, and Renumbered Recommendations.** As a result of the consolidation of Missile Command and Aviation and Troop Command into the U.S. Army Aviation and Missile Command, we redirected draft Recommendation A.2. and deleted draft Recommendation A.4. We also renumbered draft Recommendations A.5., A.6., and A.7. to Recommendations A.4., A.5., and A.6.

**A.1. We recommend that the Director, Defense Security Assistance Agency, maintain a database for all employees to support requests for reimbursement of foreign military financing funds and identify and track all time expended on specific foreign military sales tasks.**

**DSAA Comments.** The DSAA supported the intent of the recommendation but did not agree that it should track all time on FMS and foreign military financing tasks. DSAA stated that it is not cost-effective to develop and operate a system to track the time spent on FMS and foreign military financing tasks by all DSAA employees. However, DSAA would resume the practice of conducting an annual survey of employees for the amount of FMS vice foreign military

financing work performed. Additionally, DSAA stated that it would initiate an effort to develop workload measures and program metrics, and it would request the implementing agencies to participate and develop similar programs.

**Audit Response.** We consider the DSAA comments to be generally responsive. Using the annual survey to distinguish between FMS tasks and foreign military financing tasks may meet the intent of the recommendation. However, we maintain the position that DSAA will have to track time spent performing tasks integral to the FMS Program in order to comply with the Government Performance and Results Act. DSAA comments were not specific enough to determine whether its effort to develop workload measures and program metrics will meet the intent of the recommendation. We request that DSAA provide more specific details on its annual survey and development of workload measures and program metrics and specify an implementation date in response to the final report.

**A.2. We recommend that the Commander, U.S. Army Aviation and Missile Command:**

**a. Use the Army Time and Attendance Productivity System and Standard Operations and Maintenance Army Research and Development System capabilities to identify and track all time expended on specific foreign military sales tasks.**

**Army Comments.** The Army nonconcurred with the recommendation, stating that local procedures require the use of the Army Accounting System to identify and track time expended to the task level. That system provides full capabilities to charge all labor costs to specific tasks. The use of ATAAPS would add no additional capabilities but would require significant additional resources to maintain the data and reconcile that data to the Army Accounting System. The Army stated that the Army Accounting System provides the capability to identify and track all time expended on specific FMS tasks via exception labor reporting. The Army also nonconcurred with the management control weakness identified, stating that determining personnel staffing based on computed equivalent FMS workload statistics and using that equivalent workload data as support for the use of FMS administrative funds complies with the intent of the Financial Management Regulation.

**Audit Response.** The Army comments are nonresponsive. ATAAPS capability already exists at the U.S. Army Aviation and Missile Command; therefore, significant additional resources would not be required. Additionally, ATAAPS can electronically interface with the Army Accounting System and using that interface would eliminate the need for and the resources used for exception labor reporting. The Army stated that the Army Accounting System has the



## **Finding A. FMS Administrative Costs**

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capability to track the time spent performing tasks integral to the FMS Program. However, our audit work on the Army Accounting System did not show that the system had that capability. The Army assertion that using computed equivalent FMS workload statistics as support for the use of FMS administrative funds complies with the intent of the Financial Management Regulation would be acceptable; however, the Army was unable to provide documentation to support its computations. We request that the Army reconsider its position and provide comments on the final report.

**b. Evaluate the Time and Productivity System to create and maintain a personnel labor database for all employees.**

**Army Comments.** The Army nonconcurred with the recommendation, stating that a team of subject matter experts evaluated the Time and Productivity System in conjunction with formulating a decision on how the new U.S. Army Aviation and Missile Command (a combination of Missile Command and Aviation and Troop Command) would conduct their business. A recommendation was proposed to the executive steering committee to incorporate the Time and Productivity System into the business plan for the new command. The executive steering committee decided that the Time and Productivity System could not be utilized at the new U.S. Army Aviation and Missile Command.

**Audit Response.** Although the Army nonconcurred, its actions met the intent of the recommendation. However, the Time and Productivity System was created to maintain a historical database of hours worked and specific tasks performed by each employee supporting the FMS Program. Therefore, we request that the Army provide us their plan to maintain historical labor hours for employees in response to the final report.

**A.3. We recommend that the Commander, U.S. Army Security Assistance Command:**

**a. Use the Electronic Timekeeping System to identify and track all time expended on specific foreign military sales tasks.**

**b. Evaluate the Time and Productivity System to create and maintain a personnel labor database for all employees.**

**Army Comments.** The Army concurred with the recommendation, stating that the USASAC Budget and Manpower Division will establish codes that will provide the ability to gather and track all employee time associated with FMS

## Finding A. FMS Administrative Costs

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tasks. This information will be accumulated in a personnel labor database to evaluate program costs. This program is scheduled to be implemented during the first quarter of FY 1998.

**A.4. We recommend that the Commander, Navy International Program Office, and the Commander, Air Force Security Assistance Center, maintain a database for all employees to support requests for reimbursement of administrative funds and identify and track all time expended on specific foreign military sales tasks.**

**A.5. We recommend that the Commander, Naval Air Systems Command, reprogram the Foreign Military Sales Timekeeping System to search for missing time sheets for partially dedicated administrative personnel.**

**Navy Comments.** The Navy did not comment on a draft of this report. We request that the Navy provide comments on the final report.

**A.6. We recommend that the Commander, F-16 System Program Office, use the System Program Office Tools System to maintain a database for all employees to support requests for reimbursement of administrative funds and identify and track all time expended on specific foreign military sales tasks.**

**Air Force Comments.** The Air Force nonconcurred with Recommendations A.4. and A.6., stating that a standard system did not exist to track time expended by Air Force FMS employees on specific FMS tasks. With DSAA's development of the Defense Security Assistance Management System, the Air Force is restricted from developing any Air Force-unique systems. Directing the Air Force Security Assistance Center and the F-16 SPO to develop unique databases within their organizations does not solve the DoD-wide issue of ensuring that scarce resources are efficiently used and realigned as workload shifts. DSAA has no system, nor does it use any management indicators, to identify workload shifts among the Military Departments and accordingly realign the FMS administrative budget. The Air Force is of the opinion that the Defense Security Assistance Management System and the Defense Joint Accounting System should address the issue and develop a standard system to identify the total cost of administering the FMS program.

**Audit Response.** The Air Force comments are nonresponsive. We recognize that DSAA has precluded the Air Force from new system development. However, we are not recommending that the Air Force Security Assistance Center and the F-16 SPO develop new systems, but that they fully utilize the Defense Civilian Payroll System and the SPO Tools system currently in place. Additionally, we recognize that DSAA is in the process of developing the

## **Finding A. FMS Administrative Costs**

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Defense Security Assistance Management System as the DoD standard security assistance system. However, at the time of our audit, DSAA had no plans to include a personnel tracking function in that system. Although we are also of the opinion that the Defense Security Assistance Management System would be a viable alternative, our audit was limited to the administrative funds and the computer systems used to report personnel costs incurred in support of the FMS Program. We did not review the capabilities of the Defense Security Assistance Management System. However, there is no prohibition against the Air Force working with DSAA to develop such an alternative. We request that the Air Force reconsider its position and provide comments on the final report.

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## **Finding B. Management of FMS Program Costs**

The Military Departments did not fully comply with the Financial Management Regulation and the Security Assistance Manual requirements by charging routine administrative functions to program management lines. The Office of the Under Secretary of Defense (Comptroller) and DSAA had not differentiated between routine and extraordinary levels of effort or adjusted FMS guidance to account for imposed administrative fund budgets and the desire to improve customer service for the delivery of weapon systems. As a result, all routine administrative functions were not charged to the administrative surcharge fund, including \$2.6 million at the F-16 SPO in management augmentation fees in FYs 1992 through 1994.

### **Guidance for Charging Personnel Costs**

**Financial Management Regulation Guidance.** The Financial Management Regulation requires that ". . . an administrative surcharge shall be added to all FMS cases . . . to recover DoD expenses related to the functions of sales negotiations, case implementation, procurement, program control, computer programming, accounting and budgeting . . . ." The Financial Management Regulation defines program management lines, stating that "[a] case management line [DSAA renamed as program management lines in 1992] shall be included in FMS cases when there will be provision of non-routine levels of DoD case management effort in support of a case." Accounting, budgeting, and procurement tasks are to be funded with administrative surcharge funds (not program management funds), because such routine tasks must be performed on all FMS cases and are not necessarily extraordinary case management functions.

**Security Assistance Manual Guidance.** The Security Assistance Manual identifies administrative case management functions that, when performed at routine levels, are to be reimbursed with administrative funds. Those functions include, but are not limited to:

- o development of a financial and logistics management plan;
- o review and verification of program funding requirements;

## **Finding B. Management of FMS Program Costs**

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- o validation that costs are accurate and billed;
- o responding to requirements of counterpart managers, functional activities, and other supporting agencies in the resolution of interface or operating problems;
- o providing status, progress, and forecast reports; and
- o ensuring that DIFS (Defense Integrated Finance System) and IA (implementing agency) records are in agreement.

The Security Assistance Manual also states that, "Administrative LOA [letter of offer and acceptance] program management services which demonstrably are executed at a level of effort beyond that generally performed on routine FMS LOAs," are to be reimbursed from program management funds.

### **Charging Administrative Costs**

The Military Departments did not fully comply with the Financial Management Regulation and the Security Assistance Manual requirements by charging routine administrative functions to program management lines.

**Routine Versus Extraordinary Level of Effort.** The Financial Management Regulation requires that costs for accounting, budgeting, and procurement should be reimbursed with administrative surcharge funds. However, our review of 30 FMS cases found that those costs were charged to program management lines. For example, the Aviation and Troop Command charged accounting, budgeting, and procurement personnel costs to program management lines on four cases in FYs 1995 and 1996. That funding was provided for accountants to perform financial reconciliations, to provide financial status/data projections, and to perform financial corrections. As shown in the Security Assistance Manual, those functions appear to be routine tasks reimbursable with administrative surcharge funds. Additionally, NAVAIR charged program management lines on seven cases for accounting, budgeting, and procurement personnel costs. For example, on a sale of SH-2F Multi-mission helicopters, NAVAIR charged the program management line for NAVAIR contract officers, contract specialists, and procurement management support. Also, the F-16 SPO charged accounting, budgeting, and procurement personnel costs in FYs 1995 and 1996 to program management lines on eight cases. For example, on a sale of F-16 fighter aircraft, the F-16 SPO charged the program management line for an FMS clerk, an FMS assistant, a financial manager, a contracting officer, and a contract negotiator. Although

## Finding B. Management of FMS Program Costs

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the Financial Management Regulation requires that costs for accounting, budgeting, and procurement be reimbursed with administrative surcharge funds, the regulation allows reimbursement with program management line funds if the functions are extraordinary.

### Adjusting FMS Guidance

The Office of the Under Secretary of Defense (Comptroller) and DSAA had not differentiated between routine and extraordinary levels of effort or adjusted the Financial Management Regulation and Security Assistance Manual to account for imposed administrative fund budgets and the desire to improve customer service.

**FMS Guidance.** The Financial Management Regulation, issued by the Office of the Under Secretary of Defense (Comptroller), and the Security Assistance Manual, issued by DSAA, require that routine administrative functions be charged to the administrative surcharge fund and extraordinary case management functions be charged to program management lines. Thus, the guidance, as written, provides the Military Departments flexibility in determining when a function is performed at a routine level of effort or an extraordinary level of effort. However, neither regulation provides specific criteria needed to differentiate between routine and extraordinary.

The Military Department implementing guidance also did not adequately differentiate between routine and extraordinary. The Navy not only did not differentiate, but issued an instruction that conflicted with the Financial Management Regulation and the Security Assistance Manual. The NAVAIR instruction required that all administrative functions be charged to program management lines. NAVAIR Instruction 4920.2, "Defense Security Assistance Manpower Timekeeping Procedures," July 9, 1991, requires that all time expended performing tasks related to FMS cases be charged to those cases. That instruction states:

- All hours worked by employees of NAVAIR which are spent in the performance of tasks or the expenditure of effort in direct support of an existing FMS case should be charged to that case. Some examples of the types of tasks or effort included in this category are:
  - Efforts expended in support of new procurements including program/project management and procurement management office support necessary for contract award and support of the procurement action, reconciliation of case actions.

## **Finding B. Management of FMS Program Costs**

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- Reconciliation of case actions, e.g. billings, deliveries, and status of MILSTRIP [Military Standard Requisitioning and Issue Procedures] documents.
- Supervisory work performed for a specific case.
- FMS program-specific or case-specific financial management efforts.

**Imposed Administrative Budgets.** With decreasing budgets, pressure increased for DoD organizations to downsize. In an August 23, 1994, memorandum, the Under Secretary of Defense provided DSAA and the Military Departments with planning guidance related to civilian resource levels for FYs 1994 through 2001. The memorandum exempted from reductions the resources that were FMS customer-funded for personnel involved in executing the FMS Program. A second Under Secretary of Defense memorandum on April 18, 1995, provided DSAA and the Military Departments with planning guidance related to civilian full-time equivalent work years specifically for the FMS Program. That memorandum stated that civilian work years associated with the FMS Program were excluded from personnel reductions; however, it also stated:

Exemption from reduction does not constitute exemption from restructuring. These work force elements are expected to participate in Department-wide reinvention efforts aimed at doubling supervisory ratios; reducing the size of management headquarters; making proportional reductions in high grades; and decreasing the composition of the DoD force allocated to the specific infrastructure areas of finance, personnel, and procurement.

In an effort to reflect the budget reductions and downsizing trends affecting DoD, DSAA, in a March 10, 1995, memorandum, imposed administrative fund budget caps on the Military Departments for FYs 1996 through 2000. The budget caps resulted in total budget reductions of about 20 percent for each of the Military Departments. DSAA stated that the budget reductions were necessary because:

Lower sales will generate less revenue to pay for budgets, and we see no alternative but to constrain FMS program administrative costs. . . . With lower sales, there will be less FMS workload entering the DoD logistics pipeline and the FMS program sales negotiation and implementation effort should be substantially less in the last half of the decade compared to the first half. . . . Your [Military Departments] task is to restructure organizations, processes and work year levels, as necessary, so that the essential security assistance mission is conducted within the prescribed funding levels. . . . We [DSAA] expect each [M]ilitary [D]epartment to continue to emphasize FMS case closure and reconciliation efforts and to devote sufficient resources to meet mutually agreed upon FMS case closure targets. . . . We [DSAA] expect that you will continue



## Finding B. Management of FMS Program Costs

effective FMS program administration, without additional DSAA guidance and within the budget levels issued by this memorandum.

As stated in Finding A, DSAA did not obtain adequate information to determine whether the imposed budgets provided sufficient resources to carry out the essential FMS Program mission. Thus, the Military Departments were left to their own devices to live within their budget constraints. To alleviate budget shortfalls, the Military Departments did not aggressively pursue differentiating between routine and extraordinary levels of effort. Any costs that could be identified as extraordinary would be charged to program management line funds, freeing resources within the imposed administrative fund budget for routine tasks.

The Aeronautical Systems Center/F-16 SPO created management augmentation fees as another method to recover civilian personnel costs related to the execution of an F-16 FMS case. A June 24, 1994, letter from the Aeronautical Systems Center to the Air Force Materiel Command acknowledged that management augmentation fees were created in FY 1987 as "a method of funding FMS Administrative Surcharge positions (G coded) performing FMS tasks for which there is insufficient Administrative Surcharge funds." That letter additionally stated, "The bottom line was to charge off the budget shortfall to the case(s)." The F-16 SPO determined the amount of management augmentation fees to be charged to each case by adding up the costs for all administrative surcharge positions, then deducting the amount of administrative funding the office received. The F-16 SPO prorated the remaining balance to each case open during the fiscal year. The F-16 SPO charged FMS cases through management augmentation fees for administrative functions that should have been charged to the administrative surcharge fund. As a result, 5 of the 10 cases reviewed at the F-16 SPO included \$2.6 million for management augmentation in FYs 1992 through 1994, as shown in Table 4.

**Table 4. Management Augmentation Fees Charged  
in FYs 1992 through 1994**

<u>FMS Case</u>	<u>Fees Charged</u>
KS-D-SIK	\$1,400,000
PT-D-SAG	524,000
TH-D-SMG	508,000
TK-D-SLA	126,000
EG-D-STI	<u>33,000</u>
<b>Total</b>	<b>\$2,591,000</b>

## **Finding B. Management of FMS Program Costs**

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**Improved Customer Service.** DoD, like any provider of a product, must compete with U.S. contractors, foreign contractors, and foreign governments to sell its product to the foreign customers. As part of that competition, DoD must provide good customer service and must maintain good customer relations to maintain its client base. One of the methods that DoD developed to improve customer service was integrated product teams. An integrated product team is a group of individuals, each with expertise in a different area, assigned to a specific case or foreign customer. Those areas of expertise include, but are not limited to, budgeting, configuration management, financial management, logistics, program management, and software engineering. When problems arose, the customer knew to contact a member of the integrated product team and resolve the issue rather than contacting an individual who may or may not be familiar with the nuances of that case or customer. The integrated product team members worked on all aspects of a case including, but not limited to, preparing amendments to case, accounting, budgeting, contracting, financial management, case reconciliation, and case closure. For example, the Air Force F-16 SPO assigned an integrated product team to each one of its F-16 fighter aircraft FMS cases. The F-16 SPO structured the integrated product teams so that each team had all the personnel and knowledge needed to execute the program with only minor assistance from individuals not assigned to the team. However, neither the Financial Management Regulation nor the Security Assistance Manual addresses whether integrated product team personnel costs should be reimbursed with administrative surcharge funds or program management line funds.

## **Summary**

As part of the overall process to better distinguish between Military Department FMS Program and non-FMS Program costs (Finding A), there is a need to come to a common understanding of the proper allocation of administrative surcharge funds and program management line funds. We identified functions that appeared to be routine that were charged to program management lines. However, the guidance did not distinguish when the performance of those functions ceased from being routine and became extraordinary. Further, guidance in the Financial Management Regulation and the Security Assistance Manual, as written, did not reflect the reengineered structure found in the Military Departments, such as the integrated product team concept in the F-16 SPO. To improve customer service, functional experts have been assembled as a team to support an FMS customer with a case program management line for funding. The guidance addresses functions performed, not management support concepts. The argument can be raised that the functions performed by those on

## **Finding B. Management of FMS Program Costs**

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the integrated product teams are as routine as those performed by others not on an integrated product team but still supporting FMS customers. The uniqueness is the dedicated team or management support concept to support specific FMS customers with program management lines. If the guidance is changed to indicate that the integrated product team is considered extraordinary, then the present guidance states that costs can properly be charged to program management lines. We recognize, however, that not all cases have an integrated product team and a program management line to charge such services; so, provision should be made for charging administrative surcharge funds.

### **Management Comments on the Finding and Audit Response**

**Office of the Under Secretary of Defense (Comptroller) Comments.** The Office of the Under Secretary stated that the policy and guidance provided in the Financial Management Regulation clearly states that accounting, budgeting, and programming costs are to be recovered by the administrative surcharge. In addition, the Financial Management Regulation provides a detailed matrix that clearly identifies various administrative functions, and how those functions are to be funded. Further, according to the audit report, the F-16 SPO charged some of its administrative support costs to a case management line because there were insufficient administrative surcharge funds available to maintain the desired level of civilian work force. The Office of the Under Secretary stated that the Air Force should have requested an increase to its administrative budget or modified its work force accordingly. It further stated that the Air Force simply failed to comply with the Financial Management Regulation, which contains clear and adequate guidance.

**Audit Response.** The Office of the Under Secretary stated that the Financial Management Regulation required that accounting, budgeting, and programming costs be recovered by the administrative surcharge. However, the Financial Management Regulation does not clearly articulate what comprises accounting, budgeting, and programming costs, or when those functions cease from being routine and become extraordinary. As a result, the Military Departments have issued Service-unique guidance that attempted to clarify what constitutes those costs. The Navy charged all identifiable administrative and program management costs to program management lines. The Air Force, in an effort to improve customer service, developed integrated product teams which included accounting, budgeting, and programming personnel and charged all of the team's time to program management lines. However, the Financial Management Regulation does not address the use of integrated product teams.

## **Finding B. Management of FMS Program Costs**

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The Office of the Under Secretary also stated that the Financial Management Regulation includes a matrix that identifies some, but not all, administrative functions and how they are to be funded. That matrix, however, does not specify which of those functions are considered to be accounting, budgeting, or programming functions and does not provide a methodology for measuring routine vice extraordinary levels of effort. Additionally, that matrix does not address the use of integrated product teams. Inconsistent charging of program management and administrative expenses will result in overcharges and undercharges to FMS customers. Administrative costs that are charged to program management lines will result in a duplicate charge because those costs are provided for in the 3-percent administrative surcharge. Conversely, legitimate program management costs that are paid with administrative surcharge funds will result in an underbilling to program management lines.

**Air Force Comments.** The Air Force was not required to comment on Finding B but chose to do so. The Air Force stated that the application of current program management guidance for charging personnel costs to cases is subjective. There is no one definition of what is considered extraordinary.

## **Recommendations, Management Comments, and Audit Response**

**B.1.** We recommend that the Under Secretary of Defense (Comptroller) and the Director, Defense Security Assistance Agency, jointly establish a process action team to develop specific criteria for the proper allocation of administrative surcharge funds and program management line funds, recognizing that some cases do not include program management lines.

**B.2.** We recommend that the Under Secretary of Defense (Comptroller) adjust the DoD Financial Management Regulation 7000.14, volume 15, "Financial Management Regulation: Security Assistance Policy and Procedures," to incorporate the criteria developed by the process action team.

**B.3.** We recommend that the Director, Defense Security Assistance Agency, adjust the DoD Manual 5105.38, "Security Assistance Management Manual," to incorporate the criteria developed by the process action team.

**Office of the Under Secretary of Defense (Comptroller) Comments.** The Office of the Under Secretary nonconcurred with Recommendations B.1. and B.2., citing the policy and guidance contained in the Financial Management

## Finding B. Management of FMS Program Costs

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**Regulation:** Program management lines may be charged for specific cases only when extraordinary levels of effort are applied to the support of an FMS case and only when the FMS customer agrees to pay for the additional case support. The guidance in the Financial Management Regulation is adequate, and more explicit criteria for determining what constitutes routine vice extraordinary support is not necessary. Furthermore, the key criteria is the acceptance by the FMS customer of both a program management line for extraordinary administrative support in the letter of offer and acceptance and a willingness to pay for the additional extraordinary FMS administrative support. Therefore, a process action team is unnecessary to develop specific criteria.

**Audit Response.** We consider the Office of the Under Secretary comments to be partially responsive. We agree that the guidance makes provisions for charging extraordinary support to program management lines when the FMS customer agrees to pay for the additional case support. However, additional guidance on what constitutes routine and extraordinary is needed during the preparation of the letter of offer and acceptance, the development of the program management lines, and subsequent billings. As stated in the report, functions that appeared to be routine were charged to program management lines. Also, additional guidance is needed to not only address the functions performed, but whether management support concepts, by themselves, determine the proper use of administrative surcharge and program management line funds. We request that the Office of the Under Secretary reconsider its position on Recommendations B.1. and B.2. and provide additional comments in response to the final report.

**DSAA Comments.** DSAA nonconcurred with Recommendations B.1. and B.3., stating that the Security Assistance Manual is sufficient overall guidance. DSAA stated that the Security Assistance Manual requires each implementing FMS organization to determine, based on its own mission, infrastructure, and business processes, what is routine effort for all cases and what is exceptional effort for some cases. DSAA stated that it is inappropriate for DSAA to specify routine or exceptional tasks for DoD organizations.

**Audit Response.** We consider the DSAA comments to be nonresponsive. The DSAA decision to allow the Military Departments to determine what is routine versus exceptional effort has led to confusion on the part of the Military Departments and the inconsistent application of the regulations to FMS cases. For example, NAVAIR Instruction 4920.2 requires that all time expended performing tasks in support of FMS cases be charged to the program management lines for those cases regardless of the level of effort, while Air Force Manual 16-101, "International Affairs and Security Assistance Management," September 1, 1995, requires Air Force organizations to distinguish between routine and extraordinary levels of effort. However, the

## **Finding B. Management of FMS Program Costs**

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Air Force developed management augmentation fees as a method to shift costs for routine FMS administrative functions to program management lines on FMS cases. We request that DSAA reconsider its position and provide additional comments on Recommendations B.1. and B.3. in response to the final report.

**B.4. We recommend that the Commander, F-16 System Program Office, correct the charges to the program management lines for management augmentation fees.**

**Air Force Comments.** The Air Force nonconcurred with the recommendation, stating that the Aeronautical Systems Center's augmentation pool concept was approved by the Office of the Deputy Under Secretary of the Air Force (International Affairs) as a methodology of charging costs above the level of effort the FMS administrative budget was able to support. The Air Force stated that the audit acknowledged other Military Departments are charging administrative functions against cases and is not requiring those cases to be reimbursed. The Air Force also stated that the audit implies that the FMS administrative fund is not sufficient to support administrative functions as currently defined and requires change. Therefore, the Air Force nonconcurred with reimbursing augmentation fees.

**Audit Response.** We consider the Air Force comments to be nonresponsive. The Air Force acknowledged that it charged the shortfall in FMS administrative funds directly to program management lines on FMS cases via the management augmentation fee, essentially charging routine FMS administrative functions directly to cases. The Air Force stated that management augmentation fees were created to cover the shortfall in the FMS administrative budget; therefore, routine FMS administrative functions that should have been reimbursed with FMS administrative funds were, instead, charged directly to the cases via the management augmentation fee. In comments to the finding, the Air Force also acknowledged that it ended the application of the management augmentation fee in FY 1994 when it was able to obtain relief from civilian pay ceilings. We commend the Air Force for taking the corrective action. The Air Force should complete the corrective action by correcting the charges to the program management lines or by obtaining a waiver from DSAA. We request that the Air Force reconsider its position and provide additional comments in response to the final report.

## **Part II - Additional Information**



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## Appendix A. Audit Process

### Scope

We reviewed the methodology DSAA used to establish the FY 1996 through FY 2000 FMS administrative budget planning levels. Additionally, we reviewed budget submissions and budget execution documents for FYs 1995 through 1997. We reviewed the methods DSAA and the Military Departments used to support the FMS Program within the administrative funding of \$271.9 million provided for FY 1995 and \$286.3 million provided for FY 1996. We also reviewed the Military Departments' policies and procedures for identifying and accumulating administrative, logistical, and program management personnel costs incurred in support of the FMS program.

### Methodology

To determine the adequacy of the administrative surcharge and LSC rates, we evaluated the trends in the balance of the FMS Administrative Cost Clearing account from FY 1983 through FY 1996. We also evaluated the procedures DSAA used to establish the budget planning levels for the Military Departments. Additionally, we evaluated the effect changes had on the administrative surcharge budget formulation process and the unfunded requirements the Military Departments identified between FYs 1995 and 1996. Finally, we examined the budget execution plans and controls over the expenditure of administrative surcharge and LSC funds for personnel costs.

To determine whether personnel costs were properly chargeable to the administrative budget or to program management lines, we evaluated DoD policies and procedures on charging personnel costs. Additionally, we examined the systems used to track personnel costs in support of the FMS program and the personnel costs charged to the program management lines. We also reviewed information from the computer systems the Military Departments used to identify personnel costs incurred in support of the FMS program.

**Use of Computer-Processed Data.** We relied on the following computer-processed data. The Army systems were ATAAPS, Electronic Timekeeping System, Program Accounting and Budget System, Standard Operation Maintenance Army Research System, and Time and Productivity System. The

Navy systems were FMS Timekeeping System, Management Information System for International Logistics, and Standard Accounting and Reporting System. The Air Force systems were Case Management Control System, Security Assistance Management Information System, and System Program Office Management Information System. Additionally, we relied on computer-processed data from the DSAA FMS Information System and the Defense Finance and Accounting Service systems Defense Civilian Payroll System and Defense Integrated Financial System. We did not perform general and application controls to confirm the reliability of the data because of the number of computer systems involved and the time frame in which to perform the audit. As a result, we were unable to provide projections, conclusions, or recommendations based on the data.

**Universe and Sample.** We reviewed FMS cases at the Aviation and Troop Command, NAVAIR, and the F-16 SPO to determine whether personnel costs charged to those cases were appropriate. We selected open cases that were signed in FY 1989 or later that had program management lines.

**Aviation and Troop Command.** The Aviation and Troop Command had 25 open cases, valued at about \$3.8 billion, with program management lines, valued at about \$27.6 million. We reviewed a judgmental sample of 10 cases, valued at about \$2.7 billion, with program management lines, valued at about \$19.5 million.

**NAVAIR.** The NAVAIR had 154 open cases, valued at about \$13.4 billion, with program management lines, valued at about \$199.1 million. We reviewed a judgmental sample of 10 cases, valued at about \$5.2 billion, with program management lines, valued at about \$47.4 million.

**F-16 SPO.** The F-16 SPO had 17 open cases. After excluding cases for co-production\* agreements, there were 10 FMS cases, valued at about \$16.5 billion, with program management lines, valued at about \$132.7 million. We reviewed all 10 cases.

**Audit Period and Standards.** We performed this economy and efficiency audit from July 1996 through May 1997 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

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\*Co-production is a program implemented by a government-to-government or commercial licensing arrangement that enables a foreign government or firm to acquire the "know-how" to manufacture or assemble, repair, maintain and operate, in whole or in part, a Defense item.

**Contacts During the Audit.** We visited or contacted individuals and organizations within the DoD. Further details are available upon request.

### **Management Control Program**

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of the Management Control Program.** We reviewed the adequacy of management controls over FMS related personnel costs. Specifically, we reviewed DSAA management controls over the determination of the administrative budgets for FY 1995 through FY 2002. We also reviewed USASAC, Missile Command, Aviation and Troop Command, Navy International Program Office, NAVAIR, Air Force Security Assistance Center, Aeronautical Systems Center, F-16 SPO, and DSAA management controls for identifying personnel costs incurred in support of the FMS Program. Additionally, we reviewed Military Department management controls for compliance with the Financial Management Regulation and the Security Assistance Manual for charging personnel costs to program management lines. Also, we reviewed management's self-evaluation of those controls.

**Adequacy of Management Controls.** We identified material management control weaknesses as defined by DoD Directive 5010.38. DSAA management controls over the determination of the administrative budgets for FY 1995 through FY 2002, and DSAA and the Military Departments management controls for identifying personnel costs incurred in support of the FMS Program, were not adequate to ensure that the full cost of the FMS Program was reported and that the administrative surcharge and LSC rates were adequate. We could not determine the full cost of the FMS Program because it was dependent on the total personnel costs incurred to support it. Additionally, the Military Departments did not comply with the Financial Management Regulation and the Security Assistance Manual for charging routine administrative functions. All recommendations, if implemented, will allow DoD to determine the full cost of the FMS Program. A copy of the report will be provided to the senior official responsible for management controls within DSAA, the Army, the Navy, and the Air Force.

**Adequacy of Management's Self-Evaluation.** Neither DSAA nor the Military Departments identified the tracking of personnel costs for the FMS Program as an assessable unit and, therefore, did not identify or report the material management control weakness identified by the audit.

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## **Appendix B. Summary of Prior Audits and Other Reviews**

During the last 5 years, the Inspector General, DoD, has issued two audit reports and the Air Force Audit Agency has issued one audit report discussing the administrative surcharge. The report summaries follow.

### **Inspector General**

**Inspector General, DoD, Report No. 96-187, "Internal Controls and Compliance with Laws and Regulations for the FY 1995 Financial Statements for the Defense Security Assistance Agency," June 28, 1996.**

The report expresses a disclaimer of opinion on the financial statements because DoD policy did not permit the Defense Finance and Accounting Service (DFAS) Denver Center to account for the revenues and expenses in the FMS Trust fund financial statements. Additionally, DSAA did not ensure that DFAS Denver Center had established adequate audit trails from the account balances to underlying transactions used to support the FY 1995 statement of financial position for the FMS Trust fund. The DSAA and DFAS Denver Center internal control structure for the FMS Trust fund needed improvement because it did not provide reasonable assurance that material misstatements would be prevented or detected in a timely manner. The report recommended that DFAS Denver Center annually analyze the surcharge subsidiary ledgers to recommend to DSAA rate changes and redistribution of surcharge account balances. The report also recommended that the Under Secretary of Defense (Comptroller) require the recognition of the FMS Trust fund revenues and expenses, that DFAS Denver establish reasonably accessible audit trails and subsidiary ledgers to support the processing and recording of FMS Trust fund transactions, that DFAS Denver Center report accounts receivable with credit balances as a liability of the FMS Trust fund, and that DSAA age accounts receivable. The report also recommended that the Navy report FMS accounts payable to DFAS Denver Center for inclusion in the DSAA financial statements. The Comptroller stated that DSAA would conduct analyses of surcharge subsidiary ledgers and that DSAA would continue to analyze and monitor the surcharge account balances and review the rates annually for recommended rate adjustments or account balance redistribution. The Comptroller agreed to seek a waiver from compliance with Office of Management and Budget Bulletin No. 94-01. The Comptroller stated that the audit trail existed for the accounts

## **Appendix B. Summary of Prior audits and Other Reviews**

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payable and the unearned revenue account, and that additional information can be obtained from the installation level accounting systems. The Comptroller concurred with DFAS Denver recording country level credit accounts receivable as a liability. The Comptroller partially concurred with aging accounts receivable, stating that although accounts receivable were being aged, applicable policy will be clarified. The Comptroller concurred with the DFAS Denver Center including the Navy accounts payable in the financial statements. The Navy agreed to report the Navy FMS accounts payable.

**Inspector General, DoD, Report No. 94-090, "Management Data Used to Manage the Foreign Military Sales Trust Fund," April 29, 1994.** The report states that the information the Military Departments and DFAS provided to DSAA was often incomplete or inaccurate. It also states that the data used to account for country cash balances and to bill countries were subject to high error rates, and errors were not always corrected in a timely manner. Material amounts of undistributed and unmatched disbursements existed in all Military Departments. The Inspector General, DoD, and the General Accounting Office have audited DoD obligation and disbursement problems extensively, and DoD and DFAS have taken action to identify the causes and correct the problems. The audit was terminated because further audit work to more fully document the obligation and disbursement problems would not be useful. No recommendations were made.

### **Air Force**

**Air Force Audit Agency, Project 95062010, "Foreign Military Sales Administrative Budget and Cost Operations Division Personnel Realignment," August 28, 1996.** The report states that Air Force Materiel Command personnel did not accurately realign 64 FMS administrative budget position authorizations. As a result, the Air Force Materiel Command inappropriately billed the FMS administrative fund account approximately \$1.8 million for personnel who were not accomplishing FMS administrative tasks. In addition, the Air Force Materiel Command did not effectively use about \$0.8 million for FYs 1995 through 1996, according to the Air Force Audit Agency report, because of a failure to accurately compute the administrative budget for contracting position authorizations. The report recommended that the Deputy Under Secretary of the Air Force (International Affairs) require the Air Force Materiel Command to reassign or recode the administrative positions to ensure individuals reassigned or coded to FMS positions actually perform FMS administrative duties. In addition, the report recommended that the Deputy Under Secretary require Air Force Materiel

## **Appendix B. Summary of Prior audits and Other Reviews**

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Command personnel to compute authorization requirements for FMS contracting equivalent positions by using contract line item number retrieval that ensures that they are not counted twice. Management concurred with both recommendations.



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## Appendix C. Other Matters of Interest

**Closure of the Aviation and Troop Command.** As a result of the 1995 base closure and realignment process, the Aviation and Troop Command will close on September 30, 1997, and its mission and functions will be relocated to other DoD bases. We estimated, and management of the Aviation and Troop Command concurred, that about \$1.3 million would be expended for personnel costs related to base closure activities for personnel involved in the FMS Program. Those activities include:

- o planning and coordinating the move;
- o meetings and briefings (town hall meetings, permanent change of station briefings, priority placement briefings, accommodations briefings, job fairs, etc.);
- o house hunting trips and time off to move households; and
- o packing and unpacking the office.

Personnel involved in the FMS Program are funded primarily with administrative surcharge and program management line funds. As of May 9, 1997, no base closure or other appropriated funds were provided to fund the base closure related activities of personnel involved in the FMS Program. The Aviation and Troop Command plans to pay the estimated \$1.3 million with either administrative surcharge or program management line funds. In a memorandum dated July 8, 1997, we brought the funding issue to the attention of the Office of the Under Secretary of Defense (Comptroller) (see the following memorandum). In that memorandum, we suggested that the Office of the Under Secretary of Defense (Comptroller) provide guidance to the Aviation and Troop Command on the type of funding that should be used to pay for activities related to base closure for personnel involved in the FMS Program. As of September 15, 1997, that office had not provided a formal response.

## Appendix C. Other Matters of Interest



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202

July 8, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)

SUBJECT: Funding Foreign Military Sales Personnel Costs for  
Base Closure Actions

This is to bring a funding cognizance issue to your attention for resolution by your office. During our ongoing audit of the Foreign Military Sales (FMS) Administrative Surcharge, we have identified a need for DoD guidance on the proper funding of costs incurred by DoD personnel dedicated to FMS for activity supporting DoD base closure or realignment. Prompt action is requested to ensure that the proper funds are used to pay for base closure related activities of FMS Program personnel at the U.S. Army Aviation and Troop Command, which is scheduled to close on September 30, 1997.

We estimated, and U.S. Army Aviation and Troop Command management concurred, that about \$1.3 million would be expended for FMS personnel costs related to DoD base closure activities. Those activities include:

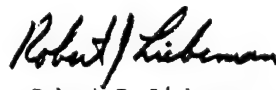
- o planning and coordinating the move;
- o meetings and briefings (that is, town hall meetings, permanent change of station briefings, priority placement briefings, accommodations briefings, and job fairs);
- o house hunting trips and time off to move households; and
- o packing and unpacking the office.

The FMS Program personnel are funded primarily with administrative surcharge and program management line funds. Funds generated from the assessment of the administrative surcharge, generally 3 percent of the value of the Defense article or service procured, are collected from the FMS customer to fund the DoD cost of administering the FMS Program. Some letters of offer and acceptance include program management lines to fund specific services that directly relate to the Defense article or service procured and are paid directly by the FMS customer.

As of May 9, 1997, the U. S. Army Aviation and Troop Command had not received base closure or other appropriated funds to pay for the base closure related activities of the FMS Program personnel and planned to pay those personnel costs with either administrative surcharge or program management line funds.

DoD Financial Management Regulation 7000.14, volume 12, chapter 13, "Fiscal Policy for Base Closure and Realignment," September 1996, provides financial policy and procedures for base closures. However, that regulation does not provide specific guidance on the proper funding to be used for FMS personnel involved in base closure activities. We question whether administrative surcharge or program management line funds should be used to pay for base closure related activities of personnel involved in the FMS Program. As a result of the planned expenditures, FMS customers, either indirectly through the administrative surcharge or directly through program management lines, will subsidize the DoD base closure efforts by about \$1.3 million. We suggest that guidance be provided to the U.S. Army Aviation and Troop Command on the type of funds that should be used to pay for base closure related activities of personnel involved in the FMS program. Additionally, we suggest that the guidance be incorporated in the DoD Financial Management Regulation to ensure consistent treatment of those costs should the situation arise again.

Please inform us by August 9, 1997 of your decision on whether DoD base closure and realignment or FMS funds are appropriate and what form your guidance to the DoD Components will take. Questions on this issue should be addressed to Ms. Evelyn R. Klemstine, Audit Program Director at (703) 604-9172 or Ms. Catherine M. Schneider, Acting Audit Project Manager, at (703) 604-9609.



Robert J. Lieberman  
Assistant Inspector General  
for Auditing

CC:  
Defense Security Assistance Agency  
Budget Integration and Evaluation Division, Assistant  
Secretary of the Army (Financial Management and Comptroller)  
Resource Division, U.S. Army Security Assistance Command  
Resource Management Directorate, U.S. Army Aviation and  
Troop Command

## Appendix D. FMS Administrative Cost Clearing Account

The FMS Administrative Cost Clearing account is maintained by DFAS Denver Center and contains funds collected from the assessment of the 3-percent and 5-percent administrative surcharges and the 3.1-percent LSC. When DSAA approved budget authority for the Military Departments, DSAA did not segregate administrative surcharge and LSC funds.

The DSAA provided the end of fiscal year balance in the FMS Administrative Cost Clearing account beginning in FY 1983 and projected out to FY 2000. According to DSAA, the end of fiscal year balance is what DSAA estimates will be in the account and available to spend after the current year collections are deposited and the current year expenses are deducted, as shown in the table.

Balance in FMS Administrative Cost Clearing Account (in millions)		
<u>Fiscal Year</u>	<u>Account Balance</u>	<u>Significant Factors Potentially Affecting the Past and Future Use of FMS Administrative Funds</u>
1983	\$ 7	
1984	( 49)	
1985	( 132)	
1986	( 310)	
1987	( 361)	Implementation of LSC
1988	( 389)	
1989	( 372)	
1990	( 243)	Implementation of the fair pricing policy
1991	( 45)	Creation of DFAS
		Creation of Defense Business Operations Fund
1992	83	Consolidation of Air Force Materiel Command
1993	293	
1994	274	First congressional ceiling
1995	462	Balance per financial statements was \$642.8 million
1996	473	Balance per financial statements was \$683.6 million
1997	409	Estimated, expected fielding of Defense Security Assistance Management System Case Development Module in June 1997
1998	353	Estimated
1999	306	Estimated, expected completion of Defense Security Assistance Management System
2000	319	Estimated

Note: In FYs 1983 through 1989, the first quarter's budget authority for the coming fiscal year was issued and recorded as a transaction of the prior fiscal year.

## **Appendix D. FMS Administrative Cost Clearing Account**

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**Balance of FMS Administrative Cost Clearing Account.** The balance in the FMS Administrative Cost Clearing account that DSAA used to develop the budget estimates was not the same as the balance in the cost clearing account per the FY 1996 financial statements. According to DFAS Denver Center, the cash balance of \$683.6 million cited in the FY 1996 financial statements was taken from the "Security Assistance Accounting Summary of Treasury Cash by IA [Implementing Agency] and Country September 1996," November 6, 1996. However, DFAS Denver Center provided "FMS Cost Clearing Account Changes Report," October 9, 1996, which showed that only \$491.7 million (\$48.1 million of administrative surcharge funds and \$443.6 million of LSC funds) was actually available for use, a difference of \$191.9 million. DFAS Denver Center explained the difference between the FMS Administrative Cost Clearing account balance according to the FY 1996 financial statements and the balance on the changes report. Data used for the FY 1996 financial statements reflected the cash balance as of September 30, 1996. Data in the changes report reflected the cash balance minus all unused expenditure authority issued against the account (FYs 1992 through 1997) as of October 9, 1996 (the date the report was run). However, the Inspector General, DoD, audit of the FY 1995 DSAA financial statements showed that there was no audit trail between the Treasury cash balance used on the financial statements and the balance on the changes report used to develop the funding targets.

According to DSAA, the FMS Administrative Cost Clearing account balance was a snapshot of the ability to finance the delivery of the existing FMS Program, should the FMS process be terminated with no future sales. DSAA regarded a balance of budget requirements for 1 and 1/2 years as the optimum safety level.

## Appendix E. Budget Planning Levels

In FY 1995, DSAA directed the Military Departments to prepare budgets based on the FMS Program requirements identified by the Military Departments. DSAA provided funding targets for the year, which included ceilings on the amount of civilian personnel costs and travel costs that could be incurred during FY 1995. DSAA also adjusted the funding targets for the 4-percent Defense planning guidance reduction in civilian manpower and the Presidential guidance mandating a 6-percent reduction of overhead costs. DSAA also stated that the funding targets provided did not include costs for automated data processing, Project Sword<sup>1</sup>, or Peace Sun IX<sup>2</sup>, and the Military Departments would have to prepare separate budgets for those items. Additionally, DSAA allowed the Military Departments to submit unfunded requirements. The table summarizes the budgets the Military Departments submitted and the budget authority that DSAA approved.

FY 1995 Budget Execution Plans (in millions)				
<u>Budget Submissions</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>DSAA</u>
Non-ADP budget	\$78.6	\$56.0	\$ 57.1	\$12.4
ADP budget	5.8	12.4	13.7	4.5
Unfunded requirements	22.4	9.1	41.4	0.0
Project Sword	5.8	N/A	N/A	N/A
Peace Sun IX	N/A	N/A	8.7	N/A
Peace Sun IX-ADP	<u>N/A</u>	<u>N/A</u>	<u>0.7</u>	<u>N/A</u>
<b>Total</b>	<b>\$112.6</b>	<b>\$77.5</b>	<b>\$121.6</b>	<b>\$16.9</b>
DSAA Approved Budget Authority	\$ 93.7	\$64.3	\$ 99.5	\$16.9

<sup>1</sup>Project Sword is the sale of M1A2 tanks to Saudi Arabia. After an in-depth review of the content of the program and the administrative revenue generated, DSAA agreed that program management costs of about \$27 million over the life of the project will be paid with administrative funds. Project Sword began in FY 1990 and is expected to continue through at least FY 1998.

<sup>2</sup>Peace Sun IX is the sale of the F-15(S) aircraft to Saudi Arabia. After an in-depth review of the content of the program and the administrative revenue generated, DSAA agreed that program management costs of about \$50.6 million over the life of the program will be paid with administrative funds. Peace Sun IX began in FY 1993 and is expected to continue through at least FY 2000.

## Appendix F. Performance Measures for the FMS Program

The overall performance measures for the FMS Program were presented in the DSAA FY 1996 financial statements. The most significant performance measures are shown in the tables below. Table F-1 shows the magnitude of the FMS Program and how it has grown over the past 6 years. Although the FMS Program has grown about 19 percent, as shown by Table F-2, the number of open cases has dropped about 16 percent. This means that, even though fewer FMS cases are open, the open cases have a higher dollar value.

**Table F-1. Value of All Open Cases at September 30**  
(in billions)

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Other</u>	<u>Total</u>
1991	\$56.819	\$48.575	\$ 78.122	\$1.695	<b>\$185.211</b>
1992	58.822	52.830	82.884	1.740	<b>196.276</b>
1993	61.776	56.574	101.818	1.641	<b>221.809</b>
1994	60.503	57.438	106.407	1.826	<b>226.174</b>
1995	58.910	58.263	105.091	1.752	<b>224.016</b>
1996	59.619	57.213	101.412	1.682	<b>219.926</b>

**Table F-2. Number of Cases Open at September 30**

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Other</u>	<u>Total</u>
1991	6,890	5,208	4,846	1,364	<b>18,308</b>
1992	6,733	5,360	4,810	1,287	<b>18,190</b>
1993	6,245	5,298	4,706	1,232	<b>17,481</b>
1994	5,757	5,210	4,536	1,142	<b>16,645</b>
1995	5,333	5,070	4,436	1,077	<b>15,916</b>
1996	5,029	4,909	4,188	1,083	<b>15,209</b>



## Appendix F. Performance Measures for the FMS Program

Tables F-3 and F-4 illustrate the number and value of new sales cases implemented over the last 6 years.

**Table F-3. New Sales Cases Accepted and Amendments Processed**

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Other</u>	<u>Total</u>
1991	1,379	816	779	319	3,293
1992	1,080	793	702	279	2,854
1993	968	756	673	279	2,676
1994	926	741	689	235	2,591
1995	991	784	751	270	2,796
1996	985	641	756	199	2,581

**Table F-4. Ordered Value of New Sales Cases Accepted and Amendments Processed**  
(in billions)

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Other</u>	<u>Total</u>
1991	\$11.392	\$3.996	\$ 8.132	\$0.267	\$23.788
1992	3.303	4.988	6.664	0.216	15.172
1993	7.587	4.446	21.136	0.047	33.216
1994	2.014	3.546	6.946	0.359	12.865
1995	2.635	3.356	2.988	0.075	9.054
1996	3.893	2.168	4.335	0.072	10.469

Tables F-5 and F-6 illustrate the number and value of FMS cases that have been closed over the last 6 years.

**Table F-5. Number of Sales Cases Closed**

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Other</u>	<u>Total</u>
1991	1,099	507	679	358	2,643
1992	1,140	576	660	360	2,736
1993	1,344	731	723	328	3,126
1994	1,301	763	774	346	3,184
1995	1,299	809	736	323	3,167
1996	991	648	768	174	2,581

## Appendix F. Performance Measures for the FMS Program

**Table F-6. Ordered Value of Sales Cases Closed**  
(in billions)

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Other</u>	<u>Total</u>
1991	\$1.823	\$0.285	\$1.637	\$0.086	\$ 3.832
1992	0.832	0.400	1.269	0.157	2.662
1993	1.458	0.516	1.129	0.110	3.213
1994	3.057	2.090	1.922	0.156	7.226
1995	3.845	2.367	3.762	0.100	10.074
1996	3.084	2.076	3.873	0.129	9.162

Table F-7 illustrates the value of Defense articles and services that DoD delivered to FMS customers in the past 6 years.

**Table F-7. Value of Defense Articles and Services Delivered**  
(in billions)

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Other</u>	<u>Total</u>
1991	\$2.834	\$1.462	\$4.864	\$0.099	\$ 9.259
1992	3.154	1.856	4.845	0.161	10.016
1993	2.935	2.940	5.581	0.127	11.583
1994	2.650	2.589	4.941	0.133	10.313
1995	5.149	2.634	3.973	0.079	11.835
1996	4.196	4.437	3.984	0.114	12.732

## Appendix F. Performance Measures for the FMS Program

Table F-8 illustrates the value of new procurement contracts awarded and new orders placed during each year.

**Table F-8. Value of New Obligations**  
(in billions)

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Other</u>	<u>Total</u>
1991	\$5.816	\$2.842	\$5.284	\$0.483	<b>\$14.425</b>
1992	3.608	5.378	4.915	0.427	<b>14.328</b>
1993	3.338	5.074	4.540	0.401	<b>13.354</b>
1994	3.242	4.929	4.410	0.389	<b>12.970</b>
1995	3.717	5.650	5.055	0.446	<b>14.868</b>
1996	3.825	5.814	5.202	0.459	<b>15.299</b>

Table F-9 summarizes all disbursements paid to contractors for work performed and reimbursements to the Military Departments for articles and services provided.

**Table F-9. Value of New Obligations Liquidated**  
(in billions)

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Other</u>	<u>Total</u>
1991	\$3.081	\$2.754	\$5.594	\$0.042	<b>\$11.472</b>
1992	4.150	3.432	4.728	0.131	<b>12.440</b>
1993	4.553	3.624	4.657	0.328	<b>13.162</b>
1994	4.903	3.091	4.849	0.378	<b>13.221</b>
1995	4.964	3.086	4.830	0.537	<b>13.417</b>
1996	5.299	3.294	5.156	0.573	<b>14.323</b>

## Appendix F. Performance Measures for the FMS Program

Table F-10 illustrates the value of Defense articles and services ordered, but not yet delivered to FMS customers at the end of the fiscal year.

**Table F-10. Ending Undelivered Balance**  
(in billions)

<u>FY</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>Other</u>	<u>Total</u>
1991	\$24.565	\$23.739	\$27.242	\$0.933	<b>\$ 76.479</b>
1992	24.714	26.872	29.061	0.988	<b>81.635</b>
1993	29.366	28.377	44.615	0.907	<b>103.265</b>
1994	28.730	29.335	46.621	1.134	<b>105.820</b>
1995	26.216	30.057	45.636	1.130	<b>103.040</b>
1996	25.914	27.788	45.987	1.089	<b>100.778</b>

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## **Appendix G. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition and Technology  
    Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller)  
    Deputy Chief Financial Officer  
    Deputy Comptroller (Program/Budget)  
Under Secretary of Defense (Policy)  
    Assistant Secretary of Defense (International Security Affairs)  
Assistant Secretary of Defense (Public Affairs)

### **Department of the Army**

Commander, Army Materiel Command  
    Commander, U.S. Army Security Assistance Command  
    Commander, U.S. Army Aviation and Missile Command  
Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Commander, Navy International Program Office  
Commander, Naval Air Systems Command  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Commander, Air Force Materiel Command  
    Commander, Air Force Security Assistance Center  
    Commander, Aeronautical Systems Center  
    Commander, F-16 System Program Office  
Auditor General, Department of the Air Force

## **Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Logistics Agency  
Director, Defense Security Assistance Agency  
Director, National Security Agency  
Inspector General, National Security Agency  
Inspector General, Defense Intelligence Agency

## **Non-Defense Federal Organizations and Individuals**

Office of Management and Budget  
General Accounting Office  
National Security and International Affairs Division  
Technical Information Center

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on National Security, Committee on Appropriations  
House Committee on Government Reform and Oversight  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal  
Justice, Committee on Government Reform and Oversight  
House Committee on National Security

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## **Part III - Management Comments**

# Office of the Under Secretary of Defense (Comptroller) Comments



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100



AUG 18 1997

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE, OFFICE OF  
THE INSPECTOR GENERAL (OIG)

SUBJECT: Draft Audit Report on Foreign Military Sales Administrative Surcharge Fund  
(Project No. 6LG-0071)

This is in response to your request for comments on the subject audit report. This office does not concur with the findings and recommendations B.1 and B.2 contained in the report. Specific comments are provided in the attachment.

My point of contact on this matter is Mr. Stephen Tabone. He may be reached by e-mail at: [tabones@ousdc.osd.mil](mailto:tabones@ousdc.osd.mil) or by telephone on (703) 693-6520.

*Nelson Toye*

Nelson Toye  
Deputy Chief Financial Officer

Attachment

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
COMMENTS ON DRAFT OIG REPORT  
"FOREIGN MILITARY SALES ADMINISTRATIVE SURCHARGE FUND"  
DATED JUNE 24, 1997  
(PROJECT NO. 6LG-0071)

Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) comments are provided below on Findings A and B, and on the recommendations associated with Finding B. No comments are provided on the recommendations pertaining to Finding A, since the recommendations were not addressed to the OUSD(C).

**FINDING A. FOREIGN MILITARY SALES (FMS) ADMINISTRATIVE COSTS**

The Defense Security Assistance Agency (DSAA) and the Military Departments did not have reliable information on either the full cost of the FMS program or the cost of tasks integral to the FMS program, such as preparing a letter of offer and acceptance or closing a case. Reliable information was not available because DSAA and the Military Departments did not use accounting procedures or cost accounting systems that ensured the inclusion of all costs incurred in support of the FMS program. As a result, administrative personnel costs of about \$85.2 million for FY 1995 and \$85.6 million for FY 1996 that DSAA and the Military Departments reported could not be verified. Additionally, DSAA and the Military Departments did not have sufficient information to determine administrative fund budget requirements, to plan for unexpected requirements, or to evaluate efficiencies and effectiveness of the FMS program. Also, it could not be determined whether funds collected from the assessment of the 3 percent administrative surcharge and the 3.1 percent LSC were adequate to cover the actual Department of Defense (DoD) cost of implementing the FMS program.

**OUSD(C) Comments:** The opening statement that the DSAA and the Military Departments did not have reliable information on the full cost of the FMS program does not appear to be supportable as the audit effort was limited to an audit of administrative support costs. The opening statement could lead the reader to conclude that less than full cost was charged to FMS customer cases, but little evidence is offered to support such a conclusion. Furthermore, the remainder of the statement, which states that the Department does not have reliable cost information on tasks integral to the FMS program, is misleading. Section 21 of the Arms Export Control Act provides for the Department to recover administrative support service costs by charging an average percentage. Therefore, having cost information on specific individual tasks integral to administrative support is unnecessary. Significant costs would be incurred to develop, implement, maintain, and operate cost accounting systems to capture the costs of specific administrative efforts in support of the FMS program—with little anticipated benefit.

Since the Department uses a percentage to recover administrative support costs, it is not surprising that the OIG could not verify, by function or case, the administrative personnel costs

of \$85.2 million and \$85.6 million for FY 1995 and FY 1996, respectively. Although the OIG would like to verify or track the specific costs for each administrative action, such as preparing a letter of offer and acceptance or closing a case, as indicated in the finding, developing the capability to cost out each task is not practical or an effective use of DoD resources.

For the reasons stated above, this office does not agree with the finding that the DSAA and the Military Departments did not have sufficient information to determine administrative fund budget requirements, to plan for unexpected requirements, or to evaluate efficiencies and effectiveness of the FMS program. Since the Department must, by statute, recover administrative support costs through the use of a percentage, it must operate the program within the constraints of the administrative charges collected and authorized to be spent by the Congress. The administrative support budget process administered by the DSAA is intended to ensure that the DoD Components operate within the FMS program's anticipated administrative surcharge collections and the ceiling authorized by the Congress. The DSAA budget process provides an opportunity to evaluate the adequacy of the administrative surcharge percentage and the requirements of the DoD Components, including opportunities for efficiencies and effectiveness.

The finding concludes by stating that it could not be determined whether the 3 percent administrative and 3.1 Logistics Support Charges (LSC) were adequate to cover the actual DoD cost of implementing the program. This office disagrees with that finding. Through the DSAA administrative support budget process, allocation of administrative budget authority and monitoring of the FMS program, the DSAA is cognizant of the Components' requirements and the adequacy of the percentages. At some time in the future, if sales drop considerably, and the collection of the administrative surcharge is inadequate to maintain the current level of FMS case support infrastructure, the percentage may need to be adjusted, or the infrastructure will be adjusted accordingly. However, today, the percentages are adequate to recover the costs of the Department with an acceptable level of support infrastructure.

#### **FINDING B. MANAGEMENT OF FMS PROGRAM COSTS**

The Military Departments did not fully comply with the Financial Management Regulation and the Security Assistance Manual requirements by charging routine administrative functions to program management lines. The OUSD(C) and the DSAA had not differentiated between routine and extraordinary levels of effort or adjusted FMS guidance to account for imposed administrative fund budgets and the desire to improve customer service for the delivery of weapon systems. As a result, all routine administrative functions were not charged to the administrative surcharge fund, including \$2.6 million at the F-16 SPO in management augmentation fees in FY 1992 through 1994.

**OUSD(C) Comments:** The OIG found instances where the DoD Components had charged routine administrative functions, such as accounting, budgeting and procurement tasks, to program management lines vice being reimbursed by the administrative fund. This office believes the policy and guidance provided in the "DoD Financial Management Regulation"

(DoDFMR) clearly states that these types of costs are to be recovered by the administrative surcharge. In addition, the DoDFMR provides a detail matrix that clearly identifies various administrative functions, and how they are to be funded. Further, according to the audit report, the F-16 SPO charged some of its administrative support costs to a case management line, because there were insufficient administrative surcharge funds available to maintain the desired level of civilian workforce. The Air Force should have requested, but did not, an increase to its administrative budget, or modified its workforce accordingly. The guidance contained in the DoDFMR is clear and adequate. The Air Force simply failed to comply with the DoDFMR. The statement by the OIG that "as a result (of not differentiating between routine and extraordinary levels of effort) all routine administrative functions were not charged to the administrative surcharge fund at the F-16 SPO," appears to be an invalid statement, and should be deleted.

**RECOMMENDATIONS FOR CORRECTIVE ACTION:**

**OIG Recommendation B.1.** We recommend that the Under Secretary of Defense (Comptroller) and the Director, Defense Security Assistance Agency, jointly establish a process action team to develop specific criteria for the proper allocation of administrative surcharge funds and program management line funds; recognizing that some cases do not include program management lines.

**OUSD(C) Response to B.1.** Nonconcur. The policy and guidance contained in Volume 15 of the "DoD Financial Management Regulation" states that case management lines may be charged for specific costs only when non-routine levels of effort are applied to the support of an FMS case, and only when the FMS customer agrees to pay for the additional case support. The guidance in the DoDFMR is adequate, and more explicit criteria for determining what constitutes routine vice non-routine support is not necessary. Furthermore, the key criteria is the acceptance, by the FMS customer, of a program management line for non-routine administrative support in the letter of offer and acceptance, and the customer's willingness to pay for the additional FMS administrative support. Therefore, a process action team is unnecessary to develop specific criteria.

**OIG Recommendation B.2.** We recommend that the Under Secretary of Defense (Comptroller) adjust the Volume 15 of the "DoD Financial Management Regulation" (DoD 7000.14-R) to incorporate the criteria developed by the process action team.

**OUSD(C) Response to B.2.** Nonconcur. The policy and guidance contained in Volume 15 of the "DoD Financial Management Regulation" is clear and adequate. No additional guidance is required.

# Department of the Army Comments



DEPARTMENT OF THE ARMY  
OFFICE OF THE DEPUTY UNDER SECRETARY OF THE ARMY  
INTERNATIONAL AFFAIRS  
102 ARMY PENTAGON  
WASHINGTON DC 20310-0102  
27 August 1997

MEMORANDUM THRU THE DEPUTY UNDER SECRETARY OF THE ARMY  
(INTERNATIONAL AFFAIRS)

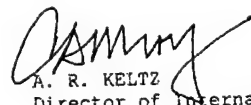
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FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE,  
OFFICE OF THE ASSISTANT INSPECTOR GENERAL  
FOR AUDITING

SUBJECT: Draft Audit Report on Foreign Military Sales  
Administrative Surcharge Fund (Project No.  
6LG-0071)--INFORMATION MEMORANDUM

This is in response to the Inspector General, Department  
of Defense memorandum of 24 June 1997 Tab A), requesting review  
and comments on the subject draft audit report.

The Army has reviewed subject draft audit report and  
comments are provided at Tab B.

  
A. R. KELTZ  
Director of International  
Development and  
Security Assistance

Enclosures

FINDINGS AND RECOMMENDATIONS  
DODIG Draft Audit Report  
Foreign Military Sales  
Administrative Surcharge Fund  
(Project No. 6LG-0071)

GENERAL COMMENTS:

Management Control Program (Page 34).

Page 42

The U.S. Army Aviation and Missile Command (AMCOM) nonconcurs in the statement that management controls by Military Departments fail to comply with the Financial Management Regulation and the Security Assistance Manual for charging routine administrative functions. The AMCOM Security Assistance Management Directorate currently follows procedures and guidelines provided in the DOD Financial Management Regulation 7000.14-R, Volume 15 and DOD Security Assistance Management Manual 5165.38-M regarding application usage of the administrative support charges. In our opinion, we believe the terminology regarding "material management control weaknesses" is used incorrectly in the audit report. There was no agreement as to how the noted deficiencies at AMCOM constituted a material weakness.

The Acquisition Center at AMCOM currently has in place an adequate system to track personnel costs incurred to support FMS programs. This system has been reviewed and found acceptable by audit agencies as well as other reviewing organizations.

AMCOM nonconcurs with the statement by the auditors that a material management control weakness exists due to inadequate controls to ensure that the full cost of the FMS program is recouped. The auditors imply that this requirement can only be met by tracking actual civilian personnel costs for all people working on FMS. We believe that the DOD Financial Management Regulation, 7000.14-R, Volume 15 would allow for manpower staffing to be based on computed equivalent FMS workload, the method currently used by AMCOM, as opposed to only actual cost. It is Resource Management Directorate's (RM) position that using equivalent workload data would satisfy the requirement to ensure the full cost of the FMS program is paid by the FMS customers. Additionally, the use of one workyear charged to the Legal Office, does not necessitate an elaborate tracking system.



## Department of the Army Comments

Final Report  
Reference

### FINDING A. Foreign Military Sales (FMS) Administrative Costs.

"The DSAA and the Military Departments did not have reliable information on either the full cost of the FMS Program or the cost of tasks integral to the FMS Program, such as preparing a letter of offer and acceptance or closing a case. Reliable information was not available because DSAA and the Military Departments did not use accounting procedures or cost accounting systems that ensured the inclusion of all costs incurred in support of the FMS Program. As a result, administrative personnel costs of about \$85.2 million for FY 1995 and \$85.6 million for FY 1996 that DSAA and the Military Departments reported could not be verified. Additionally, DSAA and the Military Departments did not have sufficient information to determine administrative fund budget requirements, to plan for unexpected requirements, or to evaluate efficiencies and effectiveness of the FMS Program. Also, it could not be determined whether funds collected from the assessment of the 3 percent administrative surcharge and the 3.1 percent LSC were adequate to cover the actual DOD cost of implementing the FMS Program."

### RECOMMENDATION A.2.a.

"Use the Army Time and Attendance Productivity System and Standard Operations and Maintenance Army Research and Development System capabilities to identify and track all time expended on specific foreign military sales tasks."

### COMMAND COMMENTS: Nonconcur.

Local AMCOM procedures require the use of Standard Operations and Maintenance Army Research and Development System (SOMARDS) to identify and track time expended to the task level. This system provides full capabilities to charge all labor costs to specific tasks. The use of the additional system, Army Time & Attendance Productivity System (ATAAPS), would add no additional capabilities but would require significant additional resources to maintain the data in ATAAPS and reconcile this data to SOMARDS. AMCOM will continue to use SOMARDS to identify and track all time expended to specific foreign military sales tasks.

We feel that the SOMARDS system provides the capability to identify and track all time expended on specific foreign military sales tasks via exception labor reporting. When utilized correctly, exception labor reporting is no less accurate than other systems reporting a specific amount of time per task, and has the added advantage of already being in place.

Redirected

Since our FMS Administrative Workyears are coded to particular TDA paragraph and lines, it is possible to identify the costs charged to the FMS Administrative Funds, however, the Acquisition Center does not track every action taken in support of FMS cases. The current process to monitor FMS workload has been reviewed and found to be adequate/acceptable by AAA/USASAC/USAFISA and others. This system identifies FMS workload as a "relationship/percentage" of total workload, but does not identify all tasks or actions.

The AMCOM Legal Office dedicated one workyear to support the FMS Program. The ATAAPS Productivity System would not be beneficial in tracking this one workyear.

The Corporate Information Center (CIC) utilizes a system which was developed by the CIC called the Personnel Utilization Reporting System (PURS) to record and report all personnel hours by project. This system is implemented throughout most of the CIC and is used to capture time spent in support of FMS programs.

RECOMMENDATION A.2.b.

"Evaluate the Time and Productivity System to create and maintain a personnel labor data base for all employees."

Redirected

COMMAND COMMENTS: Nonconcur.

A team of subject matter experts evaluated the Time and Productivity System (TAPS) in conjunction with formulating a decision on how AMCOM would conduct their business. A recommendation was proposed to the AMCOM Executive Steering Committee (ESC) to incorporate TAPS into the AMCOM business plan. The ESC made the decision that TAPS would not be utilized at AMCOM. The current plans are to use the TAPS for historical data only. Because of the decision made by the ESC no future evaluation of this issue is considered necessary.

RECOMMENDATION A.3.

"We recommend that the Commander, U.S. Army Security Assistance Command:

- a. Use the Electronic Timekeeping System to identify and track all time expended on specific foreign military sales tasks.
- b. Evaluate the Time and Productivity System to create and maintain a personnel labor data base for all employees."

## Department of the Army Comments

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Final Report  
Reference

COMMAND COMMENTS: Concur.

The U.S. Army Security Assistance Command, Budget and Manpower Division, will establish codes that will provide the ability to gather and track all employees time associated with FMS sales tasks. This information will be accumulated in a personnel labor data base in order to evaluate program costs. This new costing program is scheduled to be implemented during the first quarter of FY 98.

Deleted

RECOMMENDATION A.4.a.

"The Commander, U.S. Army Aviation and Troop Command use the Army Time and Attendance Productivity System and Standard Operations and Maintenance Army Research and Development System capabilities to identify and track all time expended on specific foreign military sales tasks."

COMMAND COMMENTS:

The recommendation has been overcome by events. The U.S. Army Aviation and Troop Command has been disestablished under the provisions of the Base Realignment and Closure.

Deleted

RECOMMENDATION A.4.b.

"The Commander, U.S. Army Aviation and Troop Command establish controls to ensure that cost transfers reported in the Standard Operations and Maintenance Army Research and Development System are also reported in the Time and Productivity System."

COMMAND COMMENTS:

The recommendation has been overcome by events. The U.S. Army Aviation and Troop Command has been disestablished under the provisions of the Base Realignment and Closure.

# Department of the Air Force Comments

Final Report  
Reference



Office of the Under Secretary

DEPARTMENT OF THE AIR FORCE  
WASHINGTON, DC

12 AUG 1997

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING  
OFFICE OF THE INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE

FROM: SAF/IAX

SUBJECT: Audit Report on Foreign Military Sales Administrative Surcharge Fund (Project No. 6LG-0071)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report.

Concur with Finding A. No standard security assistance cost accounting system exists within the Air Force to comply with SFFAS No. 4. As a result, each USAF organization performing FMS administrative functions has developed a unique method of identifying FMS administrative and case workload for reimbursement.

Nonconcur with Recommendations A.5 and A.7. SAF/IA nonconcurs with the recommendations based on the following:

a. No standard system exists today to track time expended by AF FMS employees on specific FMS tasks. With DSAA's development of the Defense Security Assistance Management System, AF is restricted from developing any AF unique systems. The AF's Case Management Control System (CMCS) originally included a module for manpower which could have been developed to track costs of FMS functions. However, CMCS is a legacy system, therefore, the manpower module will never be developed. DSAA's FMS budget guidance states "further development/ modernization of security assistance ADP systems are limited to that which is absolutely essential to support critical missions. New developmental effort is not authorized unless approved in advance by the DSAMS Configuration Control Board."

b. The SAF/IA Reinvention Laboratory sponsored Activity Base Costing (ABC) training for key personnel to determine the feasibility of implementing ABC for the AF FMS administrative budget. Since FMS is integrated in AF activities and standard AF base level accounting and finance systems are used, the group reached consensus, it would be cost prohibitive to develop an AF unique FMS cost accounting system.

c. Directing AFSAC and the F-16 SPO to develop unique databases within their organizations does not solve the issue across the AF or DoD to ensure scarce resources

Renumbered  
as Recommendations  
A.4. and  
A.6.

## Department of the Air Force Comments

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are efficiently used and realigned as workload shifts. Today, DSAA has no system nor uses any management indicators to identify workload shifts between the services and accordingly realign the FMS administrative budget. DoD uses the Planning, Programming and Budgeting System and requires resources to be allocated for programs as they are established.

d. AF is of the opinion that DSAMS and the Defense Joint Accounting Systems (DJAS) should be developed to address this issue and requiring individual units to once again develop non-standard systems is not cost effective and will not identify the total cost of FMS administrative program.

Finding B. Concur with exception. Application of current program management guidance for charging personnel costs to cases is subjective. There is no one definition of what is considered extraordinary. SAF/IA has issued policy memos since 1992 taking a firm stand on not charging routine FMS administrative functions to cases. Manpower packages are scrutinized by SAF/IAXM manpower staff to ensure manpower is not authorized for routine administrative functions. Cases cited in the audit were implemented when the ASC management augmentation fee was an approved methodology, prior to program management funding guidance in existence today. DSAA did not recognize ASC's augmentation pool workyears as part of the FMS administrative budget until FY 95. As a result of a Nov 94 SAF/IA briefing to DSAA, AF obtained relief from civilian pay ceilings and was able to fund ASC's civilian pay shortfall, thus ending the management augmentation fee. Inclusion of this prior practice in the audit report does not reflect current AF policy and the augmentation pool concept is not endorsed by senior AF management.

Recommendations B1, B2, and B3 concur. AF fully supports the establishment of a process action team to develop specific criteria for the proper allocation of administrative surcharge funds. The team should include representatives from the services and identify meaningful management indicators identifying workload shifts. (Note: DSAA does not allocate program management funds.)

Recommendation B4 nonconcur. ASC's augmentation pool concept was an approved methodology of charging costs above the level of effort the FMS administrative budget was able to support. Audit acknowledges that other services are charging administrative functions against cases and is not requiring those cases to be reimbursed. The audit implies that the FMS administrative fund is not sufficient to support administrative functions as currently defined and requires change. Therefore, AF nonconcur with reimbursing augmentation fees.

Nonconcur with management control weaknesses. The AFMC annual review of all FMS administrative manpower requirements is the basis of AFMC's FMS administrative budget. Requirements are based on sampling techniques and observation. In lieu of having a certified cost accounting system in place, it is the most cost effective method of establishing requirements and basis for reimbursement during program execution. The audit did not evaluate AFMC's annual manpower review; therefore, stating that an internal management control weakness exists within the AF is not appropriate.

## Department of the Air Force Comments

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Please refer questions or comments concerning this audit to SAF/IAXM. Patti Higgins.  
(703)697-3699 or Deana Lande (703)697-4666.



Robert R. Chapin, Col. USAF  
Chief, Policy Division  
Deputy Under Secretary, International Affairs

cc:  
DSAA(Compt)  
SAF/FMBIS  
AFSAC/IP

# Defense Security Assistance Agency Comments

Final Report  
Reference



DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

31 AUG 1997

In reply refer to:  
I-97/50284

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE,  
DEPARTMENT OF DEFENSE INSPECTOR GENERAL (DoDIG)

SUBJECT: Audit Report on Foreign Military Sales (FMS) Administrative Surcharge Fund  
(Project No. 6LG-0071)

- References: (a) DoDIG memorandum of 24 June 1997, subject as above  
(b) Security Assistance Management Manual, DoD 5105.38  
(c) Air Force and DSAA responses to DoDIG report No. 90-059, Subject: The Foreign Military Sales Administrative Fund, 18 April 1990

Reference (a) requested management comments on the draft audit report.

During the findings section leading to the recommendation A.1. and to those (A.2.-A.7.) of other organizations, the DoDIG was critical of budgets that were not "requirements-based." DSAA has issued a five year funding plan, and has empowered the Military Departments and Defense Agencies to manage their own FMS programs. They are directed to control their costs to the budget target, by taking steps to reduce work force, cutting redundancies or lower priority workload, and developing new ways of doing business. This is like other programs in DoD, wherein scarce resources need to be apportioned among competing tasks, and some program resource "consumers" and tasks have to be reduced in line with anticipated funding.

We support the intent of recommendation A.1. to improve accountability but do not agree that we should track all time on Foreign Military Financing (FMF) and FMS tasks. We do not believe that it is cost effective to develop and operate a system to track all DSAA employees' time spent on FMS and FMF tasks. DSAA has 91 civilian employees in total for FY 1996. We will resume our practice of conducting an annual survey of DSAA employees for the amount of Foreign Military Financing (FMF) vice FMS work. In addition, with respect to your comments about managerial cost accounting on page 5 of the draft audit, we will initiate an effort to develop DSAA workload measures and program metrics, and request the implementing agencies to participate and develop their own similar programs.

We non-concur with recommendation B.1. We believe that the current guidance in reference (b), is sufficient overall guidance. This guidance requires each implementing FMS organization to determine, based its own mission, infrastructure, and business processes, what is routine effort for all cases and what is exceptional effort for some cases. We believe it is inappropriate for DSAA to specify routine or exceptional tasks for DoD organizations, and reference (c) contains both Air Force and DSAA objections to similar DoDIG recommendations.

We non-concur with recommendation B.3. as we do not see the need to charter a process action team, for the reasons stated about recommendation B.1. above.

Recommendation A.7.  
renumbered  
as A.6.



## Defense Security Assistance Agency Comments

You have also requested a review of Appendix A of reference (a), wherein some of the audit's findings bear on the adequacy of the Management Control Program. We also non-concur with this finding, both from the standpoint of identifying all personnel costs with a cost accounting system, and the statement that Military Departments did not comply with the Financial Management Regulation and reference (b) for charging routine administrative functions. Our earlier comments above apply.



MICHAEL S. DAVISON, JR.  
LIEUTENANT GENERAL, USA  
DIRECTOR

## **Audit Team Members**

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## INTERNET DOCUMENT INFORMATION FORM

**A . Report Title:** Foreign Military Sales Administrative Surcharge Fund

**B. DATE Report Downloaded From the Internet:** 10/11/99

**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)  
Inspector General, Department of Defense  
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